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JAPE No. 92: LABOR IN GOVERNMENT

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EDITORIAL

The midpoint of the current federal Labor government's term of office is a good time for assessing its performance. What has been done in each of the major policy areas? What has not yet been done but needs to be done? What are the possibilities and prospects? More generally, what does the experience indicate about the role of the state and policies for reform within modern Australian capitalism? This special theme issue of *JAPE* contains 19 articles that address these concerns.

While the coverage is broad, the wide array of policy fields with which any government is engaged makes some selectivity unavoidable. The primary attention here is accorded to policy fields where the *economic* dimension is front and centre, albeit emphasising the interconnected political dimensions, as befits a journal of political economy. An article on the current macroeconomic situation in Australia sets the scene before the spotlight turns to major economic policy areas such as labour relations, industry policies, trade policy, fiscal policy and monetary policy.

Attention is also given to social policy issues, including welfare policy and policies towards care for children, the elderly, and people with disabilities. Policies for housing, health, schools and infrastructure provision are also analysed, recognising the key intersections between their social, economic and political aspects. Energy policy gets attention as a crucial crossover between economic and environmental concerns that has attained ever greater significance because of climate change. The articles on all these policy issues recognise the essentially long-term character of what is at stake. Looking back, many of the associated social and environmental stresses intensified during the decade of policy inaction by conservative NLP Coalition governments. Now, looking forward, the societal need is for policies that can help create a more equitable and sustainable future. The key questions are: what can be learned about these long-term challenges by seeing them through a political economic lens; and is a good start being made now in addressing them?

Less characteristically 'economic' topics, such as national security and foreign affairs, invite similar questions. Two articles address the AUKUS deal, focussing on both the international context and the local impacts. Another article shows the key political economic interests continuing to

'Editorial' (2024)
Journal of Australian Political Economy
No. 92, pp. 5-7.

impede more effective action on climate change. Such analyses invite reflection on how Australia as a nation is being positioned in a deeply troubled world. The defeat of the Voice referendum in October 2023 also has substantial implications, both for First Nations peoples and for the Labor government, briefly eplored here too.

The ALP's success in the 2022 federal election was only the fourth time in over 70 years that it had ousted a LNP Coalition from governing the nation. It is therefore appropriate that this issue of *JAPE* concludes with articles reflecting on previous experiences and legacies of Labor in government, such the Hawke-Keating and Rudd-Gillard-Rudd leadership periods. Linking those experinces with the current government's situation shows the tensions as well as the possibilities when Labor is at the helm of the ship of state.

This is a big agenda and an usually big issue of this journal. When the editors initially decided to focus on this theme, it was imagined that the scope might be broadened further still by including analysis of State Labor governments. Because the ALP presently holds office in every State and Territory except Tasmania, the significance of this nearly 'clean sweep' would be interesting to explore. So too would more general aspects of Federal-State relations. These are topics that could be addressed in future *JAPE* issues. The journal will continue to run articles on the exercise of political economic power and the constraints on the power of governments both internationally and within Australian capitalism.

The lens through which one looks is crucial. The perspectives on display in this current issue of *JAPE* – some seeing a 'glass half full' and others seeing a 'glass half empty' – reflect personal judgments. A deeper tension between policy analysis and policy prescription may also be discerned. The former engages with the 'what, why and how' questions, seeking to understand the drivers and constraints that shape the policy processes; while the latter is more about advocacy of what each proponent considers should be done. Political economy – from the era of classical political economy right through to the present day - has always had both analytical and prescriptive elements. Indeed, it is a dual theme throughout the social sciences, despite frequent claims about being 'value free'. Value-laden judgements underlie how the issues are seen, conceptualised, and argued. Nowhere is this more so than in the analysis of public policies where assessments about the 'politics of the possible' are always varied.

The diverse political economic views displayed here, intertwined with the broad coverage of policy areas, also reflects how this special theme issue of *JAPE* originated and was managed. Like most academic journals, *JAPE* normally awaits submitted papers and tests whatever comes in by applying a peer refereeing process to assess suitability for publication. That happened for some of the articles here that were sent in by authors responding to *JAPE's* public 'call for papers'. However, to ensure wider coverage and reliably good quality, other articles were also invited directly from known experts in particular fields of policy analysis. Each article then underwent an intensive process of editorial revision to ensure clarity, relevance and alignment with the journal's overall theme. However, no attempt was made to edit for consistency of judgments made about the policies of Australia's current Labor government. Some articles interpret what Labor is doing as taking important and constructive first steps while facing the big policy challenges, while others are strongly critical.

The editors of *JAPE* present this special theme issue in the expectation that you will find interesting information, analysis and ideas in the following pages that stimulate further political economic engagements.

Frank Stilwell
for the JAPE editorial collective
November 2023

50 YEARS OF POLITICAL ECONOMY IN AUSTRALIA

The first full course in political economy began at Sydney University in 1975. Fifty years later, a stocktaking of subsequent experiences is appropriate. *JAPE* will therefore precede the start of 2025 with a special issue considering the emergence of the political economy movement, subsequent developments nationwide, achievements and disappointments, and the challenges for political economy today.

Submitted papers would be welcome, either of normal *JAPE* length or shorter contributions – perhaps reflecting on personal experiences or implications of studying political economy.

Please send submissions (word length: 1,500-8,000) by 3 June 2024.

To submit a paper, or for further information, contact Frank Stilwell: *frank.stilwell@sydney.edu.au.*

THE ECONOMIC CHALLENGE

Thomas Greenwell

The Labor government came to power facing an economy rife with challenges. Both the domestic and international economy have been experiencing the adverse economic effects of the disruptions to global supply chains resulting from the COVID crisis and Russia's invasion of Ukraine. Global commodity markets have been beset by volatility, flowing through to rapid inflation. At home, Australia's workers are facing decline in their living standards as the cumulative impact of 10 years of stagnant wages growth and recent high inflation weigh heavily on their incomes. Unemployment rates are low but whether this can be maintained remains uncertain because of the restrictive monetary policies that the Reserve Bank of Australia has implemented.

This article discusses the economic challenges, both global and domestic, that the Labor government faces. It details the cost-of-living and real wage crises now facing Australian workers; and it examines the key economic trends shaping the inflationary process and the labour market conditions. Importantly, it emphasises that economic challenges are *opportunities* too, particularly for the Albanese government. The government has the opportunity, as well as the need, for creative thinking about policies to reduce inflation, to hold on to full employment, and to drag workers out of the cost-of-living crisis. It has an opportunity to reset the macroeconomic policy framework in an enduring way for the longer term. If it can so successfully, it would become a world leader in innovative policy implementation to addresses the current economic challenges. Conversely, failure to do so could have major consequences, both economic and political.

Greenwell, T. (2024)
'The Economic Challenge'
Journal of Australian Political Economy
No. 92, pp. 9-34.

The international economy

The difficulties of the international economic environment are widely recognised. The Reserve Bank of Australia (RBA) has drawn recurrent attention to the persistent inflationary pressures; ongoing supply disruptions; and the rapid increases in the price of energy, food, and other commodities due to the Russian invasion of Ukraine (RBA 2022). A few months after the ALP government was elected in May 2022, the Treasury Secretary told Parliament that it was increasingly likely that recessions would occur in major developed economies (Kennedy 2022).

The ongoing consequences of the COVID-19 era have been pervasive. The RBA reported in May 2022 that strength in real GDP growth in advanced economies was underpinned by fiscal and monetary stimulus implemented to combat the economic effects of the pandemic. The rebound that followed the removal of mobility restrictions also drove growth as pent-up consumer demand was released (RBA 2022). The recovery in demand resulted in falls in the unemployment rate in most advanced economies alongside increases in job vacancies. Wages growth picked up as the labour market tightened and workers tried to make up for lost real incomes.

Responding to inflation well above their respective inflation targets, the central banks of advanced economies had begun a rapid withdrawal of the monetary policy stimulus provided to support economic activity during the pandemic. They also announced intentions to reduce asset holding, unwinding the quantitative easing that had been in place since the Global Financial Crisis (RBA 2022). Inflation had risen faster than expected, partly because of global supply chains restraining production, arising from the health measures that had been implemented to halt the spread of the COVID-19 virus. Driving inflation still higher, global commodity prices had risen rapidly in response to Russia's invasion of Ukraine, as official sanctions and private sector decisions led to disruptions in trade and financing. The sharp increase in commodity prices was most acute in oil, thermal coal, and natural gas. Global wheat prices also increased sharply because of the prominence of both Ukraine and Russian as major suppliers of agricultural products (RBA 2022).

The net result of the clouded economic outlook was a downgrade of the Treasury forecasts for global growth in 2022 and 2023 compared with the forecasts presented in the *Pre-Election Fiscal and Economic Outlook* in April 2022, explained to Parliament by the new Treasurer a mere three

months after their publication (Chalmers 2022b). The Labor government was facing a difficult global economic backdrop to the already challenging situation being experienced at home.

Over the course of the first year of Labor's term, the international economy did not show any sign of improvement. In its August 2023 *Statement on Monetary Policy* (SMP), the RBA reported that global economic growth had slowed due to higher interest rates and cost-of-living pressures (RBA 2023a). By August 2023, the RBA expected global growth to remain below average over the coming two years and had revised expected growth in Australia's major trading partners from around 4% in 2023 in the May 2022 SMP, published just prior to the ALP taking office, to around 3.25% in 2023 in its August 2023 SMP (RBA 2022, 2023a).

Monetary policy, having been rapidly tightened over the course of 2022 and 2023, may only have reached the peak of the cycle near the end of 2023. The minutes of the September 2023 RBA Board meeting noted that market expectations for central bank interest rates implied that most advanced economies were at or near the peak of their respective tightening cycles. The minutes also reported that, while headline inflation had eased in year-on-year terms in most economies because of declines in commodity prices, core inflation remained sticky. Wage growth in response to cost-of-living pressures during a tight labour market meant that core services inflation was still high in most advanced economies (RBA 2023b). Even after around twelve months of monetary policy tightening, labour markets had only eased slightly; and even that easing was very gradual. In most advanced economies, unemployment rates were still close to historic lows and vacancy-to-unemployment ratios were above pre-pandemic levels, while labour productivity remained subdued (RBA 2023a).

The RBA's August 2023 SMP highlighted that the combination of these factors meant that wages growth was above levels that were consistent with most central banks' inflation targets (RBA 2023a). These pressures remain unresolved, and the global economy continues to face the prospect of higher interest rates for longer, as central bankers continue using the orthodox tool kit of raising interest rates to try to return inflation to target levels and weigh down on workers trying to recover their standard of living. Indeed, Christine Lagarde, the head of the European Central Bank, commented as late as September 2023 that interest rates would stay high

enough to restrict business activity for 'as long as necessary' (Weber and Randow 2023).

The new government could not expect an easy run from a buoyant global economy, unlike previous governments. Moreover, the outlook for global growth deteriorated further while Labor settled into office. Even though wages growth was picking up and advanced economies were close to full employment, orthodox policy thinking meant that these gains would likely be crushed by the conventional central bank policies for combatting inflation. These developments in the global economy were reflected, in many important respects, in domestic economic difficulties.

The Australian economy

The opening sentence of Treasury's outlook for the domestic economy in the new government's first Budget read: 'The Australian economy is facing serious challenges – a sharp global economic slowdown, high inflation, rising interest rates and falling real wages' (Treasury 2022). The state of the economy was defined by COVID-19, inflation, and the policy stance of the Reserve Bank of Australia. The Consumer Price Index (CPI) showed quarterly growth of 2.1% in March 2022, the highest quarterly print since the GST was introduced in September 2000 (ABS 2023c). The year-on-year figure of 5.1% was the highest since September 2008, presaging what would become an accelerating cost-of-living crisis in Australia. The rise in inflation had prompted the Reserve Bank Board to increase the cash rate by 25 basis points on 3 May 2022, part-way through the election and a prelude to the tightening cycle that Labor was to face as it took the Treasury benches (Lowe 2022).

When Labor took office, the average real wages of Australian workers had been declining for six of the seven previous quarters, on top of the real wage stagnation suffered during the length of the Coalition government (ABS 2023e, 2023c). The new government's election commitment of 'getting wages moving again' would prove to be a far more difficult promise to deliver on than could have been anticipated (Chalmers 2022a). Year-on-year inflation peaked in December 2022 at 7.8% and remained well above the Reserve Bank's 2-3% target range throughout 2023. The Wage Price Index (WPI) in September 2023 showed that real wages were as low as they had been in June 2009. The official cash rate set by the RBA had increased by 425 basis points, up to 4.35% by November 2023. The

effect has been probably the worst cost-of-living crises in a generation, resulting in declining living standards for many households, and a major challenge for the new government.

This is a situation needing careful political economic analysis, including deeper understanding of the nature of the recovery from COVID-19; the drivers of inflation; and the characteristics of the labour market.

The recovery from COVID-19

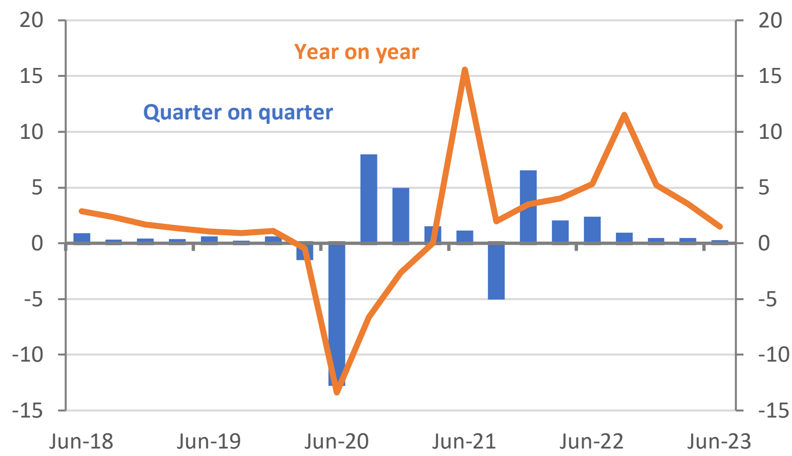
The after-effects of the health crisis and lockdowns were still unwinding as Labor took office. The last of the mobility restrictions were removed in mid-2022 and workers were releasing pent-up demand accumulated during two years of lockdowns and substantial macroeconomic stimulus. Growth in 2022 was driven by consumer spending, as workers returned to buying services that had been restricted by lockdowns (Kennedy 2023b).

During the first part of the new government's time in office, household final consumption grew 11.5% in September and 5.2% in December 2022 (see Figure 1). Household spending was mainly driven by discretionary spending, which grew 26.7% year-on-year in real terms in September and 9.9% in December 2022 (see Figure 2).

The household savings ratio, having peaked at 23.6% in June 2020, declined to 7.2% in September 2022 and 4.4% in December 2022 (see Figure 3). Tourism also saw a robust recovery, growing by over 1000% in both June and September 2022 and well over 600% in December 2022 in year-on-year terms (see Figure 4). With movement restrictions lifted and the supply of services now freely available, workers were saving less of their current income and were instead spending as if to make up for lost time.

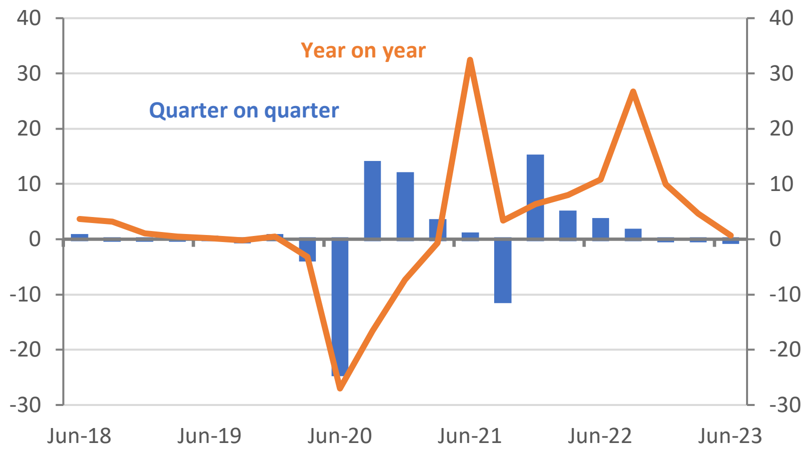
The robust rebound in household consumption drove GDP growth, giving the impression of a buoyant recovery. Yet, even in Labor's first Budget, Treasury was forecasting that the strength in the household-driven rebound was expected to fade once the recovery in discretionary services eased and mounting pressures on households began to take hold (Treasury 2022). Chief among these pressures was the effect of elevated inflation on real household incomes, which no amount of pent-up demand could paper over forever.

Figure 1: Real household consumption growth (%)



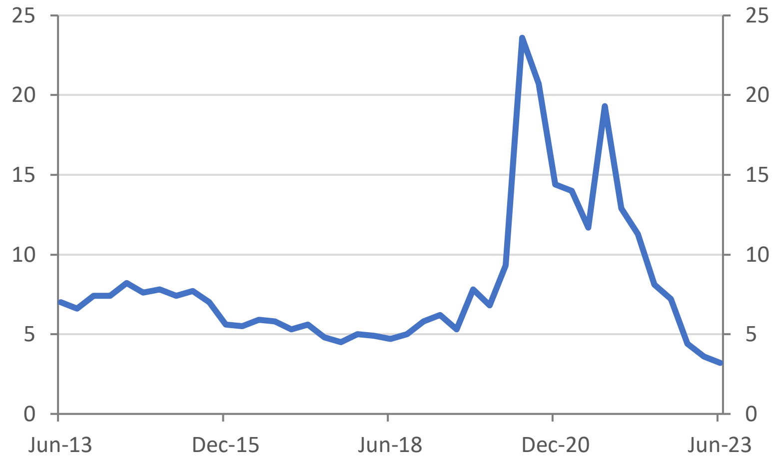
Source: ABS (2023a), author's calculations.

Figure 2: Real discretionary consumption growth (%)



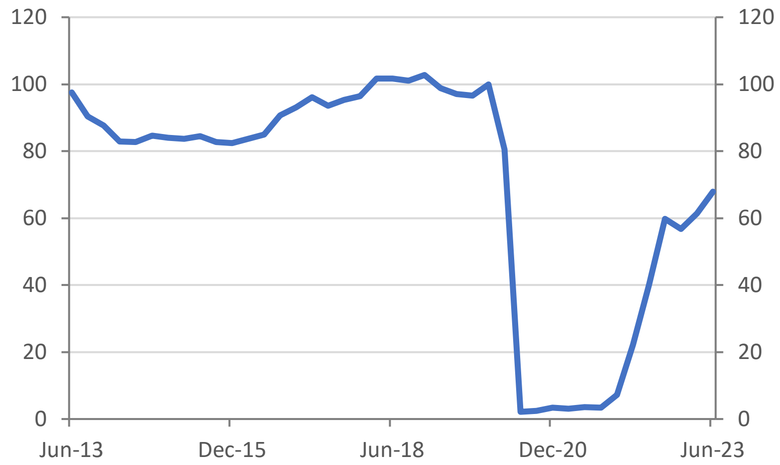
Source: ABS (2023a), author's calculations.

Figure 3: Household saving ratio (%)



Source: ABS (2023a), author's calculations.

Figure 4: Australian tourism consumption (index)

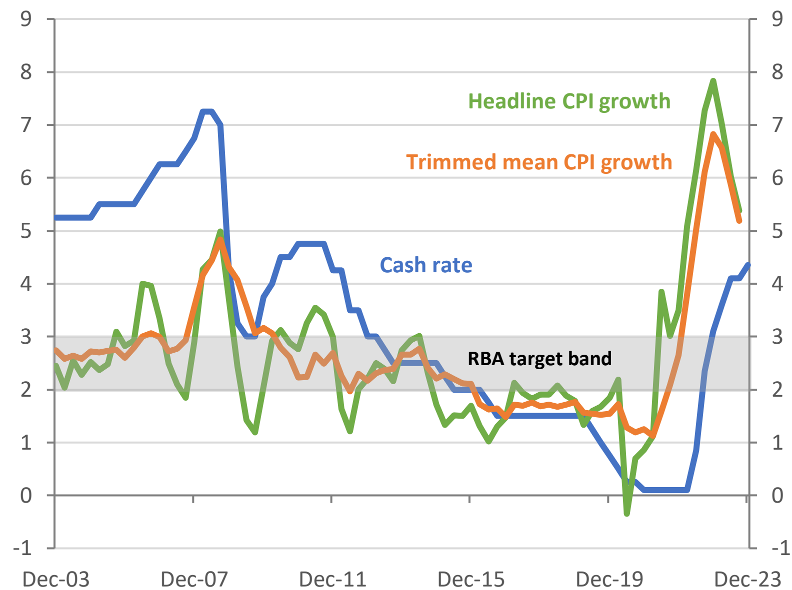


Source: ABS (2023b), author's calculations.

Drivers of inflation

In his post-Budget economic briefing, given just under a year after Labor took office, the Treasury Secretary noted that: 'The return of high inflation, to the fastest rate in thirty years, is one of the defining features of the current economic landscape' (Kennedy 2023a). By the time of the May 2022 election, headline CPI had been above the Reserve Bank's inflation target range for around a year, showing 3.8% year-on-year growth in June 2021 (see Figure 5).

Figure 5: RBA cash rate and inflation growth (%)



Source: ABS (2023c) and RBA (2023d), author's calculations.

The drivers of Australia's inflation proved to be a controversial subject. Stanford (2023), using a decomposition of the GDP deflator by income components, ascribed the main driver of inflation to unit profit costs arising from elevated corporate profits. Stanford's results were in line with analysis by the OECD, which also ascribed much of the upward price

pressure in the GDP deflator to elevated unit profit costs (OECD 2023).[1] The claim of profits driving inflation was disputed by the Treasury, however, which released advice to government (under freedom of information) that argued that elevated inflation could be explained for the most part by the impacts of cost increases and sectoral shocks resulting from the pandemic's impact on supply chains, Russia's invasion of Ukraine and severe weather events disrupting supply chains in Australia (Treasury 2023a). Treasury disputed the validity of decomposing inflation via the GDP deflator, on grounds that imports detract from GDP and would therefore not be counted in the decomposition of price drivers. The Treasury advice also suggested that, once mining was removed, profit margins had only increased slightly compared to just prior to the pandemic, suggesting corporate profiteering was not relevant to inflation in Australia.

Reference to an earlier iteration of the GDP deflator decomposition used by the OECD, which adjusts for imports, sheds some light on the relative contributions to price pressures in Australia (OECD 1985). Between March 2022 and March 2023, imports contributed on average 38% of total growth in the GDP deflator, peaking at 53.9% in September 2022 when imports contributed 4.7 percentage points of total growth of 8.7%. Gross operating surplus, the national accounting measure of aggregate profits, contributed an average of 34% of total growth over the same period, peaking in June 2022 when profits contributed 4.7 percentage points of total growth of 10.8% (see Figure 6). The picture is complicated slightly by the heavy weight of mining in overall profits in Australia, and the OECD rightly cautions that mining may account for a large share of the rise in unit profits since COVID-19 in commodity exporting countries like Australia (OECD 2023). Nevertheless, the disaggregation by factor incomes does show that the combination of profits and imports have driven price pressures. Further, the disaggregation exercise rules out any notion that workers' wages did any of the heavy lifting in contributing to upward price pressures before the most recent quarters, giving the lie to any notion of a 1970s-type wage-price spiral.

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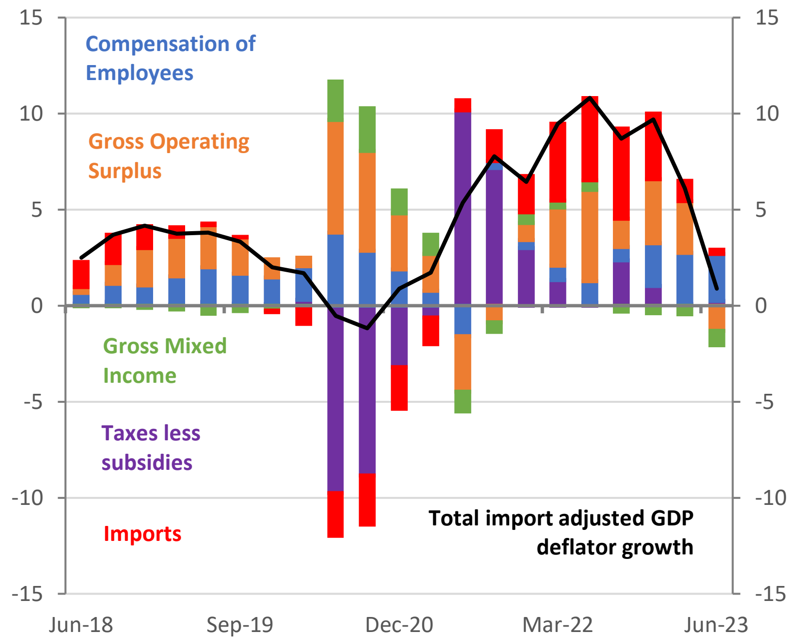
[1] Unit profit costs are a measure of profits per unit of output, calculated by dividing Gross Operating Surplus by real Gross Domestic Product.

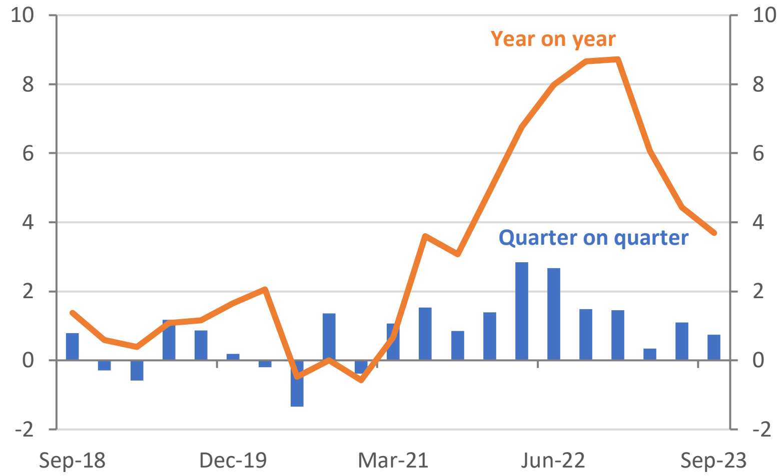
Figure 6: Factor income contributions to year-on-year GDP deflator growth (%)



Source: ABS (2023a) and ABS (2023b), author's calculations.

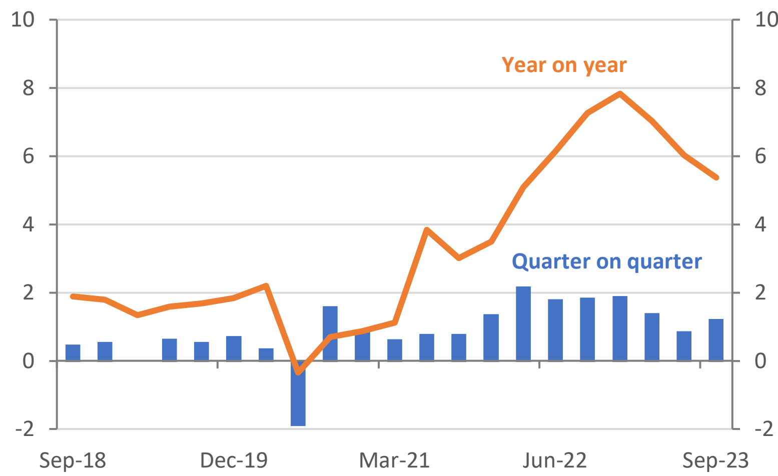
The outsized contribution of import prices to inflation growth in Australia is also reflected in the tradeable inflation series published as part of the CPI release. Tradeable inflation rose rapidly from June 2021, the first quarter headline CPI left the RBA's target band. Tradeable inflation peaked at 8.7% year-on-year in December 2022, then fell to 3.7% in September 2023 (see Figure 7). This easing has been coincident with the easing in headline inflation, which also declined from the peak of 7.8% year-on-year in December 2022 to 5.4% in September 2023 (see Figure 8).

Figure 7: Tradeable inflation (%)



Source: ABS (2023c), author's calculations.

Figure 8: Headline inflation growth (%)



Source: ABS (2023c), author's calculations.

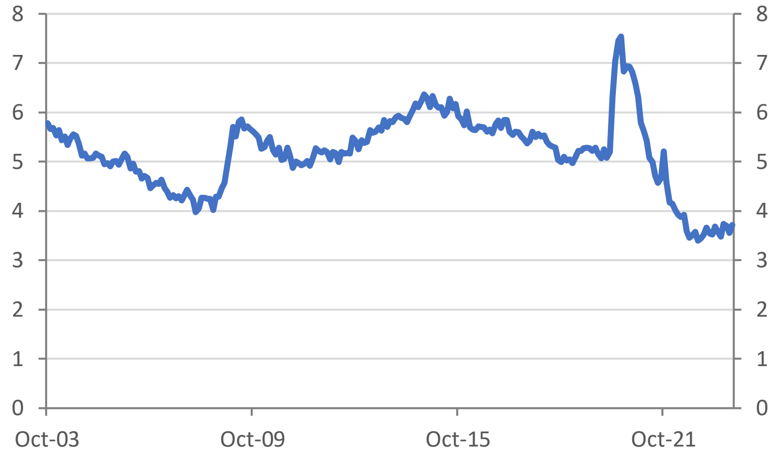
The ALP government can take little comfort from this modest easing in the contribution of imported inflation to Australia's overall inflation problem. The Treasury Secretary acknowledged this in his opening statement to the Senate Economics Committee in May 2023, noting that inflation was moving into a new period, one where elevated import prices are flowing through to final domestic prices, leading to 'a pick-up in services inflation and mark[ing] the beginning of a return to more usual inflation dynamics, where domestic costs are the main driver' (Kennedy 2023b). The difficulty for Labor is the evident determination of the RBA to use the interest rate tool to quash inflation, *whatever its causes*. The effect of this currently dominant policy will be to unwind the modest gains that workers have achieved in the labour market since COVID-19.

Labour market

By May 2022, the month of the Federal election, the unemployment rate had fallen to 3.9%, down from a peak of 7.5% in June 2020, when Australia was in the depths of the COVID-19 related lockdowns (ABS 2023d). The subsequent rebound in employment and severe decline in the unemployment rate meant the labour market was performing better than before COVID-19, when unemployment had averaged 5.6% in the five years prior to January 2020, just before the virus reached Australia (see Figure 9).

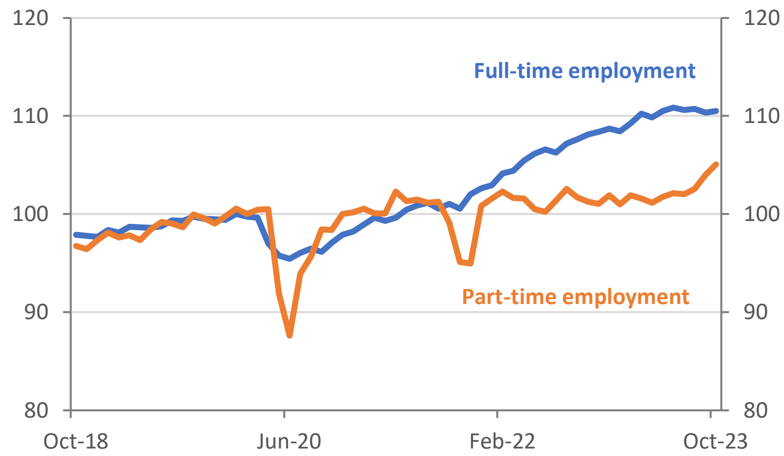
In the government's October 2022 Budget, Treasury observed that the 'labour market [had] continued to tighten, with strong employment growth driving the unemployment rate to almost a 50-year low' (Treasury 2022). This trend continued throughout the first year of the government's time in office, with the unemployment rate rising no higher than 3.7% during the 17 months to October 2023. The labour market improvements were mainly in full-time employment, growing by 7.7% between December 2021 and October 2023. By contrast, part-time employment grew 4.3% over the same period (see Figure 10). The shift to full-time employment was most pronounced for female employees, with growth in full-time employment of 11.3% between December 2021 and the peak in October 2023. In the same period, part-time female employment increased by only 2.8% (ABS 2023d).

Figure 9: Unemployment rate (%)



Source: ABS (2023d), author's calculations.

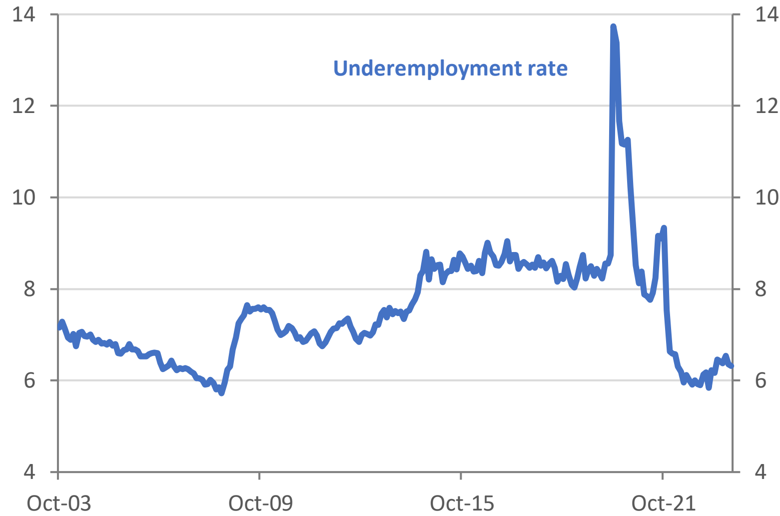
Figure 10: Growth in full-time and part-time employment (index)



Source: ABS (2023d), author's calculations.

Strong demand for labour also saw a substantial decline in the *under*employment rate, which averaged 6.2% during the first 17 months of the Labor government, compared to an average of 8.5% in the five years prior to the COVID-19 outbreak (see Figure 11). This decline in underemployment was a substantial reversal of the situation in the pre-pandemic decade when underemployment was widespread. Many people were finally able to get the hours they wanted to work.

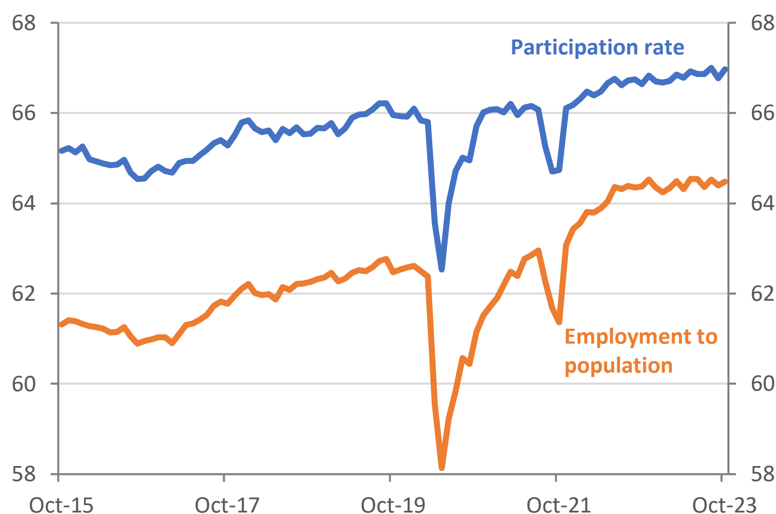
Figure 11: Underemployment rate (%)



Source: ABS (2023d), author's calculations.

In response to the improved labour market conditions, workers grabbed these employment opportunities. As the RBA observed in the May SMP, in Australia, labour supply was robust in response to the strong labour demand (RBA 2022). The workforce participation rate rose from 66.2% in December 2021 to average 66.8% during the government's first 17 months in office, reaching a record high of 67% in August 2023. The ratio of employment to population also reached record heights, rising from 63.4% in December 2021 to an average of 64.4% during the first 17 months of the new government's term (see Figure 12).

Figure 12: Measures of labour supply (%)



Source: ABS (2023d), author's calculations.

The challenge for the new government was not the luck of facing the best labour market in decades, but instead what such a low unemployment rate implied. In a speech in June 2023, the RBA's Deputy Governor Michele Bullock (subsequently appointed as Governor) gave the RBA's assessment that 'for the first time in decades, firms' demand for labour exceeds the amount of labour that people are willing and able to supply.' Putting her view of this situation in no uncertain terms, Bullock followed this up by saying that: *'employment is above what we* [the RBA] *would consider to be consistent with our inflation target'* (Bullock 2023, emphasis added). The inference was that, in the RBA's view, the unemployment rate would need to rise from three-point-something, as it was at the time of that speech, to the RBA's assessed 'sustainable balance' point of around 4.5%. This meant the government was facing a determination by the central bank to put potentially thousands of workers out of work in pursuit of its goal of dampening an inflation process that originated mainly from overseas.

Over the first year of the Labor government, the RBA vigorously pursued this policy of returning inflation to within it target range. In the statement

following the RBA Board's meeting in September 2023 – the last of out-going Governor Philip Lowe – the labour market was assessed as still tight, although conditions had 'eased a little' (Lowe 2023). The Labour force release showed that full-time employment had levelled off at around 9.8 million persons in May 2023, staying there for the next five months (ABS 2023d). Part-time employment increased by around 158,000 persons between May and October 2023. This compositional shift has been evident since mid-2023 and may be a warning sign that the gains made after COVID are on shaky ground in the face of the RBA's determination to return employment to its so-called sustainable balance point. Youth unemployment has risen too, up from 7.6% in May to 9.2% in October (ABS 2023d). In other words, groups that usually face a deterioration in their employment prospects when the economy begins to turn down were seeing the consequences of the slowdown that had been emerging in the economy since the March quarter of 2023.

Seeking to clarify how it was responding to this situation, the government published its *Employment White Paper* in September 2023, only three months after Bullock's speech outlining the need for a higher unemployment rate. In it, Labor committed to an 'ambition for a dynamic and inclusive labour market in which Australians have the opportunity for secure, well-paid jobs in a country where workers, employers and communities can thrive and adapt' (Treasury 2023b). The ALP is faced with the challenge of holding on to the record low unemployment and buoyant labour market conditions, even as the central bank pursues a policy of raising interest rates, which restrains economic activity and tends to increase unemployment. This is an economic situation that would be hard enough for any new government, but the Albanese government is also facing one of the most severe cost-of-living crises in Australian history.

Cost of living crisis

The significant decline in living standards being suffered by Australian workers, while exacerbated by the surge of inflation, has deeper roots in ten years of Coalition government. The Abbott-Turnbull-Morrison governments deliberately suppressed wages through a combination of public sector wage caps, relying on the Fair Work Commission to cut penalty rates, and targeted measures against trade union activity (Quiggin 2019). In a notably open statement in early 2019, then Finance Minister

Matthias Cormann described downwards wage flexibility as a 'deliberate design feature of our economic architecture' (Clench 2019). Cormann's statement crystalised the LNP Coalition's strategy toward the working class, one that was substantially successful in suppressing workers' wages.

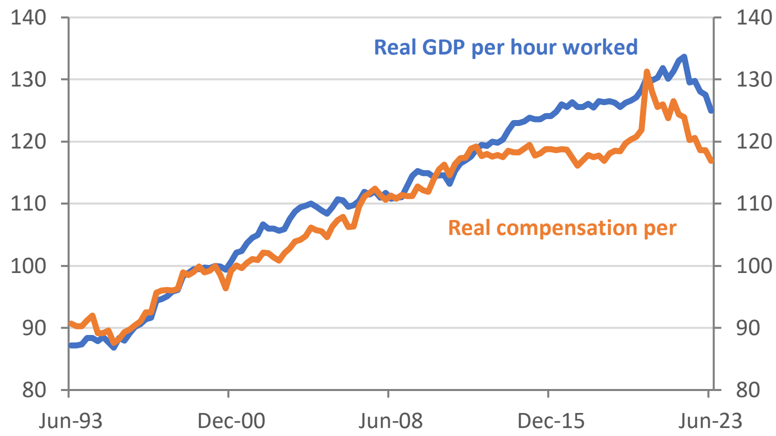
Real wages, measured by the Wage Price Index (ABS 2023e, 2023c), increased only 0.5% between September 2013, around the time of election of the Abbott government, and March 2022, the last full quarter of the Morrison government. Real compensation of employees per hour worked – which is a broader measure of wages including superannuation and other wage and salary income – increased only 5.5% across the same period (see Figure 13).

By contrast, real GDP per hour worked, a proxy measure for labour productivity, rose 11.1% between September 2013 and March 2022, a little more than twice the rate of increase of real compensation. Gross value added per hour worked in the 'market' sector – *i.e.* excluding the public sector of the economy – rose 13.4% over the same period, well above the increase in real compensation per hour worked and 27 times as fast as real wages measured by the WPI (ABS 2023a, 2023e).

Over this period, the profit share of the national income rose 3.5 percentage points to 31.0%, while the wage share of national income fell 3.2 percentage points to 49.9%, reaching its lowest ever level in June 2022 as the ALP took office (ABS 2023a).

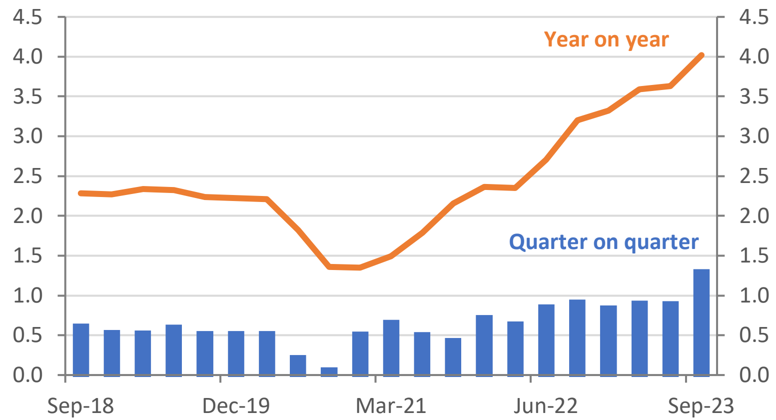
With real wage growth not even close to productivity growth in the previous ten years, the cost-of-living crisis could only worsen during the first year of Labor's time in power. This was despite the tight labour market and strong employment growth offering some counterweight through a pick-up in nominal wages growth. After seven months of an official unemployment rate with a three in front of it, and firms in the RBA's liaison program reporting difficulties finding suitable labour (RBA 2023a), wages growth picked up in the September quarter 2022. The WPI rose 3.2% in year-on-year terms in that quarter, the fastest wages growth recorded since March 2013 (ABS 2023e). Robust wages growth continued for the next four quarters to September 2023, the first such period of sustained wages growth for workers since the Coalition took office in September 2013 (see Figure 14).

Figure 13: Real GDP and real compensation per hour worked (index)



Source: ABS (2023a), author's calculations.

Figure 14: Nominal wage growth (%)

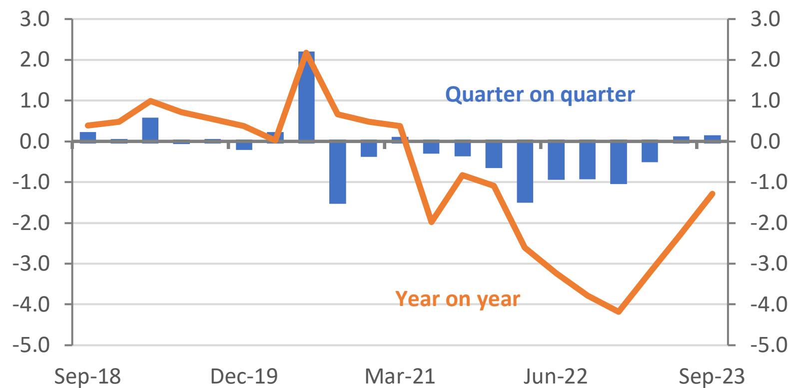


Source: ABS (2023e), author's calculations.

The pick-up in wages growth and strong employment growth partially explain the resilience of the Australian economy during the first year of the ALP government. As the Treasury Secretary noted in May 2023, '[h]ousehold spending has been supported by the record low unemployment rate, strong labour force participation, and rising nominal wages growth' (Kennedy 2023b). However, the combination of high inflation and the RBA's pursuit of the reduction of inflation to target using orthodox policy tools meant that the uptick in wages growth was not enough to offset the losses from inflation and interest rates, with the fall in real income described by the Treasury Secretary as 'squeezing household incomes and weighing on consumer spending.'

Indeed, the modest gains in nominal wages were swallowed completely by rapid inflation growth. Over the first year of the new government, from June 2022 to June 2023, real wages fell by a cumulative 2.3%, having declined in year-on-year terms in each of those four quarters; and continuing to do so in the September quarter 2023 (see Figure 15).

Figure 15: Real wage growth (%)



Source: ABS (2023e) and (2023c), author's calculations.

Because inflation outweighed growth in nominal wages, coming on top of a cumulative impact of 10 years of Coalition government, as of September 2023, real wages were brought back to the same level as they were in June 2009 (see Figure 16).

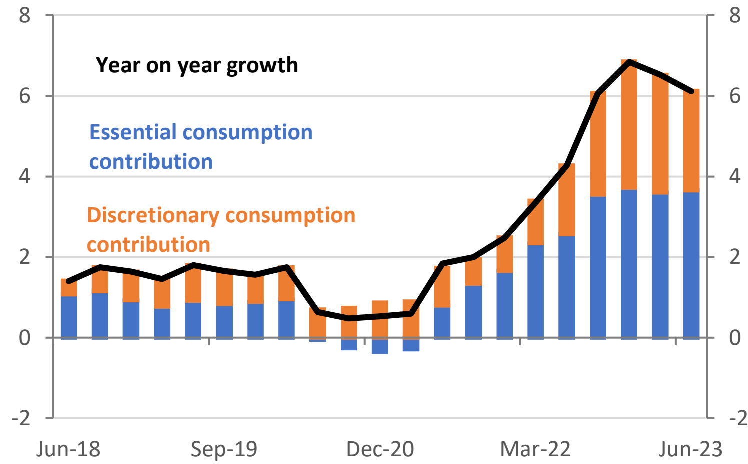
Figure 16: Real wage level (index)

Source: ABS (2023e) and (2023c), author's calculations.

Turning to how the current cost of living crisis impacts on Australian households, it is worth noting that some of the sharpest price rises have been concentrated in forms of consumption that workers and their families cannot avoid. Disaggregating the household consumption deflator into its essential and discretionary components, as defined by the ABS, indicates that since March 2022, essential consumption has contributed on average 59% of the inflation faced by households between June 2021 and June 2023 (see Figure 17).

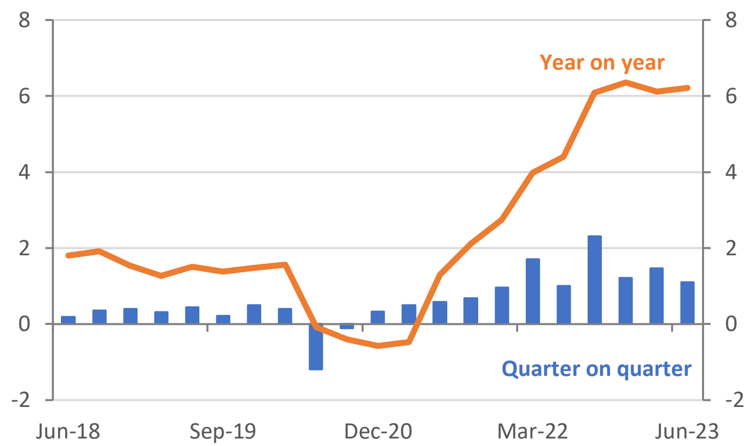
Key among these price pressures have been rents, which, as measured by the national accounts, rose by 6.8% in the June quarter of 2023, the highest since March 2009. Rents have risen by a cumulative 7.6% since March 2022, weighing particularly heavily on young workers. The price of electricity, gas, and other fuels also rose 19.3% in the June quarter 2023 and has risen by a cumulative 21.9% since March 2022. The price of food rose 7.2% in the June quarter, having increased by a cumulative 9.3% since March 2022. The price increases in food over this period were the highest since late 2006. The combined effect of these price rises in essential consumption have plateaued at the equivalent of 6% year-on-year from September 2022 to June 2023 (see Figure 18).

Figure 17: Consumption price growth by category (%)



Source: ABS (2023a), author's calculations.

Figure 18: Essential consumption price growth (%)



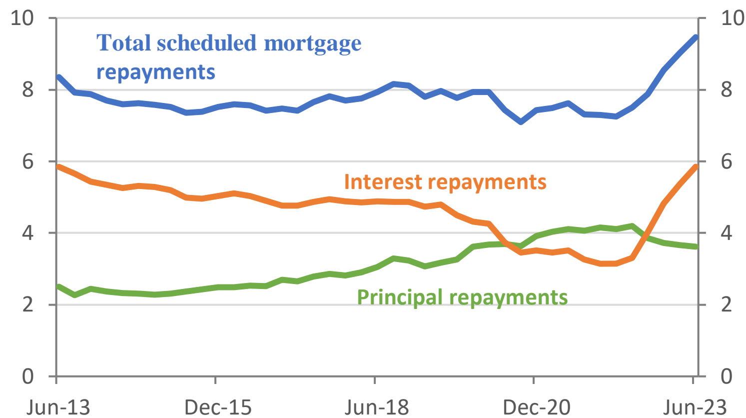
Source: ABS (2023a), author's calculations.

Weighing further on households has been the increase in the *debt servicing ratio*, which is a measure of the share of income given over to interest payments. The debt servicing ratio rose from a low of 3.6% in March 2022, just prior to the first increase in the cash rate, to 7.5% of household income in June 2023 (see Figure 19). The RBA's cumulative increase in the cash rate has pushed the ratio to its highest level since June 2013. Total scheduled mortgage repayments have also risen to 9.5% of household income as of June 2023, the highest share of income in the series available (see Figure 20). On top of the increasing prices for essentials like food, rent and electricity, indebted workers are also having to scale back on spending to service debts and make ends meet. A consequence of this cost-of-living crisis is a slowdown in household spending and economic activity, which is the intended effect of the RBA's interest rate rises. The outcome is that Australia's workers are being crushed between inflation that to date has been driven by overseas wars and supply disruptions – which the interest rate increases can do very little to deal with – and rising debt servicing costs resulting from the use of the orthodox economic policy instruments.

Figure 19: Household debt servicing ratio (%)

Source: ABS (2023a), author's calculations.

Figure 20: Household mortgage repayments as a share of income (%)



Source: RBA (2023c), author's calculations.

The pressure on workers' income from the cost-of-living crisis is not expected to abate soon. In their August 2023 SMP, the RBA forecast household consumption growth to remain below average until late 2024. The RBA stated that this 'reflects weak growth in real disposable incomes as the strong growth in labour incomes is being more than offset by high consumer price inflation, the earlier tightening in monetary policy and higher tax payable' (RBA 2023a).

The cumulative impact of ten years of stagnant real wage growth and real income losses during the post-COVID inflation surge is weighing heavily on households and represents the most significant challenge in the economy inherited by the Labor government. It is no surprise then that Australia's workers consider this to be the top priority needing to be addressed by Labor. Polling undertaken by Redbridge Group in September 2023 indicated that, by a significant margin, those polled viewed the cost-of-living crisis as the number one issue the Albanese government should be focusing on (Redbridge Group 2023). The depth of the crisis in cost-of-living and the breadth of those feeling it will make any well-meaning reform difficult for the government until such time as the decline in real incomes begins to reverse. For these reasons, addressing the cost-of-living crisis needs to be at the heart of all policy initiatives undertaken.

Concluding remarks

The economy inherited by the Labor government elected in May 2022 has few bright spots. Because the international economic environment is beset by many similar pressure points, there is little prospect of external demand smoothing over the difficulties in the domestic economy. Even the positive features of a labour market in which full-time employment has been growing strongly is showing signs of stalling in response to the orthodox use of raised interest rates to try to reduce inflation.

The fiscal policy response by the Labor government thus far has been modest and guarded. Its 2023-24 Budget delivered around $15 billion in targeted cost-of-living relief, including price caps on coal and gas, a $40 per fortnight increase in JobSeeker, and a modest increase in Commonwealth Rent Assistance. But these are comparatively small measures and offer little prospect of a sustained restoration of workers living standards, real wages, and livelihoods. Alongside this, Labor has committed in the *Employment White Paper* to creating an economy where ‘everyone who wants a job is able to find one without having to search for too long’ (Treasury 2023a). However, the commitment to full employment may mean very little if the RBA’s use of monetary policy brings unemployment back up to its modelled ‘stable balance point’ through using the orthodox tool kit to slow demand and dampen price pressures.

The Labor government therefore faces a difficult economic situation, requiring creative policies to reduce inflation, retain full employment, and relieve workers from the cost-of-living crisis. Raising interest rates and running budget surpluses – the orthodox macroeconomic tools of the last few decades – cannot suffice. The government has both the need and opportunity to reset the macroeconomic policy framework. Conversely, failure to adequately address the cost-of-living crisis and restore workers living standards may derail other well-meaning policy goals of the government and could see Labor returned to the opposition benches before it has had time to reverse the damage resulting from a decade of Coalition government.

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LABOUR POLICIES

Greg Jericho, Charlie Joyce, Fiona Macdonald, David Peetz and Jim Stanford

There was little public focus on potential industrial relations reform during the lead-up to the 2022 Federal election. The ALP advanced relatively incremental commitments on labour policy matters, including promises to act on gender inequity and job insecurity, introduce minimum standards for 'employee-like' workers such as gig workers, and ensure same pay for labour hire workers (Australian Labor Party 2022). These commitments were less specific and less far-reaching than the ambitious industrial relations platform the ALP took to the 2019 election – which the party entered well ahead in the polls, but then lost. Many party strategists concluded from that experience that the ALP should adopt a 'small target' approach in future elections; and this thinking was evident in the party's modest industrial relations platform (and on other key issues, such as tax policy).

Nevertheless, labour policy issues took on greater significance in the latter days of the campaign, as much by accident as design. An important debate occurred around the Fair Work Commission's annual minimum wage review (which would culminate a month after the election). With inflation accelerating to over 5% (and later peaking, by end-2022, at almost 8%), observers debated whether the minimum wage should keep up with surging prices. The Australian Council of Trade Unions (ACTU) argued it should: the central labour body asked for a 5.5% increase to keep pace with prices. When questioned about the ACTU's position, Anthony Albanese responded that people on 'minimum rates of pay can't afford to go backwards,' and that minimum wages 'absolutely' should be adjusted upward to match inflation (Jericho 2022; Karp 2022). This incited a flurry

Jericho, G., C. Joyce, F. Macdonald, D. Peetz, and J. Stanford (2024)
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of media and political scrutiny about the wisdom of increasing wages in line with inflation. Business leaders and orthodox economists argued this would unleash a much-feared 'wage-price spiral,' and then-Prime Minister Scott Morrison seized on the issue, claiming Albanese's view was 'reckless' and that he was a 'loose unit on the economy' (Evans 2022). Despite opposition from economic orthodoxy, however, the general idea proved popular with the public: exit polling showed an overwhelming majority of voters (83%, with large majorities across all party allegiances) agreed wages should at least keep up with inflation (Raynes 2022). So in this indirect way, industrial issues proved important to the ALP's eventual victory, despite a lack of detail in its platform.

Unions' engagement with the Albanese government has been informed by disappointment at the industrial relations legacy of the previous Labor governments of Kevin Rudd and Julia Gillard. The *Fair Work Act* (*FWA*), implemented by Labor in 2009, in retrospect embodied more continuity than change, relative to anti-union laws passed by previous Coalition governments. Under the *FWA*, union density has continued to plummet, strike frequency fell to all-time lows, and wages experienced the weakest sustained growth in the postwar era (Stewart *et al.* 2022). Unions are hoping for more significant labour policy changes from this ALP government.

The first year of the Albanese government realised some of those hopes. The government has implemented several important initiatives to strengthen wages and reform labour law. Legislative changes have required tricky negotiations in the Senate (where the government needs support of the Greens and at least two cross-bench Senators to pass bills), resulting in some compromises as legislation worked through Parliament. This article will review the government's major labour policy initiatives: including reforms to the *FWA*, stronger minimum wage awards, and several initiatives in the area of gender equality. At time of writing, another composite tranche of legislative amendments to the *FWA* (in the *Closing Loopholes Bill*) was being debated, with the government once again negotiating with reluctant crossbench Senators. Other non-legislative labour policy initiatives launched by the government include new appointments to the Fair Work Commission, a new White Paper on employment policy, and a new approach to collective bargaining with federal public servants; these are also reviewed below.

On the whole, the Albanese government deserves positive marks for achieving significant improvements in labour policy as a central component of its overall political and legislative agenda. These changes will make an incremental but important difference to wages, equality, and representation for workers in future years. On the other hand, the most important barriers to future economic and democratic progress for workers have not been adequately addressed in these reforms – including remaining effective barriers to broader multi-employer and sectoral collective bargaining, and Australia's uniquely repressive rules regarding industrial action and union membership. Addressing those barriers will require both more courage from legislators, and a stronger and sustained political mobilisation among Australian workers. Until then, the imbalance in Australian industrial relations, tilted decisively in favour of employers, will not be fundamentallyimproved.

Secure jobs, better pay

Immediately after the election, the Albanese government convened a 'National Jobs and Skills Summit', which engaged unions, business leaders, and selected civil society organisations in discussion about the need for fairer workplaces and stronger collective bargaining. The Summit was intended to lay a political foundation for subsequent reforms to industrial relations reforms. Within a month, the government then tabled a first package of such reforms, in the *Secure Jobs, Better Pay Bill* (containing numerus amendments to the *FWA*). In introducing the legislation, Minister for Industrial Relations Tony Burke (2022b) said it would 'promote job security, help close the gender pay gap, modernise the workplace bargaining system and get wages moving after a decade of stagnation.'

Business and employer groups expressed concern about the speed of reform and complained they had not been consulted on the detail. That soon turned into full-scale opposition to some of the reform proposals. In particular, business groups including ACCI, the Australian Industry Group, and the Business Council of Australia objected to reforms designed to stop the decline of collective bargaining. Business-friendly editorialists raged that the changes represented a 'seismic shift' and would give 'absolute power' to unions (*The Australian* 2022a, 2022b).

In contrast to these exaggerated claims, business groups were less agitated about other proposals in the legislation, some even welcoming the *Bill's* gender equality reforms. Meanwhile, the ACTU (2022: 4) described the *Bill* as 'a critical and welcome measure to get wages urgently moving,' while acknowledging the legislation would leave in place past restrictions on representation, bargaining, and industrial action. Similar assessments were offered by industrial relations and labour law experts (Forsyth and McCrystal 2022; Wright 2022).

The bargaining reforms, including enhanced opportunities for multi-employer bargaining and various measures to prevent employers from avoiding new enterprise agreements, were intended to address the rapid decline in rates of collective bargaining, and the associated record slowdown in wage growth. Between 2013 and 2022 the number of current enterprise agreements registered under the *FWA* halved; and the proportion of employees covered by them fell accordingly (Stanford, Macdonald and Raynes 2022). The decline of enterprise bargaining has been especially evident in the private sector; contributing factors include the termination and non-renewal of enterprise agreements, and far-reaching restrictions on union activity and industrial action.

Following a Senate inquiry and negotiations with Independent Senator David Pocock (whose vote was needed for Senate approval), a slightly amended bill passed into legislation in December 2022. The amendments included several concessions to employers, such as restrictions on proposed multi-employer bargaining arrangements and the exclusion of the building and construction industry from multi-employer bargaining.

The most controversial elements of the *Secure Work, Better Pay* reforms were measures to expand opportunity for collective bargaining across multiple workplaces or employers. These reforms were informed by the growing view among industrial relations experts and trade unionists that negotiating improved wages and working conditions at individual, small worksites is extremely difficult, if not impossible, given the fragmentation or 'fissuring' of employment practices. Instead, broader sector-, region-, or occupation-wide bargaining structures are required to set benchmarks that can be sustained in the face of competition, outsourcing, and union avoidance strategies (Madland 2021). The *Secure Jobs, Better Pay Bill* expands access to multi-employer bargaining (which had been nominally permitted under the *FWA*, but with onerous restrictions that made it effectively impossible) through two separate streams.

The first is an expansion of the previous 'single interest employer bargaining' stream, to widen options for unions to bargain with multiple employers. At time of writing, an initial application of the new rules was proceeding, launched by unions representing general education and support staff at Catholic schools in Western Australia. Enterprise bargaining for those schools had long been resisted by employers, leaving employees on agreements that expired in 2016 (Workplace Express 2023a). In this first case, unions did not have difficulty proving that Catholic school employers in WA had sufficient common interests (a criterion for access to the multi-employer bargaining stream), since these employers had already demonstrated their willingness to bargain jointly with teachers' unions under earlier, more restrictive bargaining arrangements (Workplace Express 2023a). Nevertheless, labour law experts suggest that remaining restrictions on access to this multi-employer bargaining option are 'likely to limit its practical effectiveness' (Forsyth and McCrystal 2023: 7). Dire business warnings that employers will be roped into sector-wide agreements will not come to pass; this new single interest stream will likely have limited application.

The *Secure Jobs, Better Pay* reforms also featured a second multi-employer 'supported bargaining' stream, intended expressly for low paid workers – especially in feminised, publicly-funded care and community services sectors. This stream replaced a previous low-paid bargaining stream in the *FWA* which was never successfully used; the new supported bargaining stream was not opposed by business groups. In August 2023, the FWC authorised the first supported bargaining application: launched by the Australian Education Union (AEU) and the United Workers Union (UWU) for a multi-employer agreement to cover early childhood education and care (ECEC) workers. This case will be a key test of the supported bargaining arrangements. It is expected that the unions and employers will also use this process to seek funding for negotiated pay rises from the federal government.

Other changes in the *Secure Jobs, Better Pay* package remove barriers to creating new enterprise agreements. These include the automatic termination of thousands of so-called 'Zombie' enterprise agreements by end-2023. Many workers under these Zombie agreements (mostly inherited from the Howard era) have been worse off than they would have been according to minimum award wages and conditions (Forsyth and McCrystal 2023: 9). Another important reform allows the FWC to send employers and unions to arbitration to end intractable bargaining disputes.

Notably, in opting for arbitration to resolve disputes, the government rejected the more politically difficult option of enhancing and protecting workers' right to strike (Forsyth and McCrystal 2023: 12); this approach also opens the possibility of employer-friendly arbitration decisions to end disputes (Workplace Express 2023b). On this issue, Greens members of the Senate Committee inquiring into the *Bill* expressed disappointment that workers' 'very limited' ability to exercise the right to strike had not been addressed (Parliament of Australia 2022a: 97).

Other *Secure Jobs, Better Pay* reforms were less contentious than those addressing collective bargaining. These included measures to streamline the process for the FWC to approve newly negotiated enterprise agreements, new limits on the employment of workers on successive fixed-term contracts, and amending the objects of the FWA to include job security and gender equality (the latter discussed further below).

Following the passage of the *Secure Jobs, Better Pay* package, a second tranche of industrial relations reforms was tabled by the government, through the *Protecting Worker Entitlements Bill*. This second package included improving protections for migrant workers, making employer superannuation contributions a guaranteed entitlement under the National Employment Standards (NES), and further measures to address gender inequality. This second package of FWA amendments was passed into law in June 2023, without the same political or legislative controversy as occurred with the *Secure Jobs, Better Pay* package.

Closing loopholes

In September 2023, after extensive consultation with unions and employer bodies, the government introduced a third set of reforms to the *FWA*, the *Closing Loopholes Bill*. This package was still being debated at time of writing, and will likely prove the most contentious of the government's industrial relations initiatives to date. The original package contained 18 parts; the most important and controversial sections addressed labour hire, 'gig' or platform workers, casual work and wage theft.

A few large companies (such as BHP and Qantas) have infamously used widespread labour hire and outsourcing arrangements to cut wages and labour costs, and circumvent collective agreements with direct employees. The *Closing Loopholes Bill* proposes to require firms with an enterprise agreement to pay labour hire workers the same wage rates as their own

employees covered by that agreement. Seemingly targeted at large, egregious employers, these provisions are weaker than parallel measures already in force in the UK and the European Union (where a 2008 EU Directive requires that any labour hire workers receive the same 'basic working and employment conditions' as direct employees, regardless of whether a collective agreement was in place).[1] Unlike those international approaches, the *Closing Loopholes Bill* would also require that labour hire employees or their representatives apply for an order from the FWC, before this obligation for equality of treatment was activated.

A more radical rethink of labour law is evident in the *Closing Loopholes Bill's* provisions regarding what it terms 'regulated workers': including road transport owner-drivers and digital platform workers, two groups of workers (currently treated as independent contractors) that are widely acknowledged as vulnerable.[2] The new legislation would enable the FWC, which previously could only intervene on issues affecting employees, to set standards for contractors in these specific industries, with the goal of setting comparable standards to those enjoyed by equivalent employees. In road transport, the reforms would also enable the FWC to make orders affecting firms higher-up in the supply chain, even if they do not directly hire the contractors in question. Business, naturally, criticises this approach for its alleged impact on innovation, consumer prices, productivity, and employment; meanwhile, many labour advocates would prefer that these workers were redefined as employees and regulated that way.

However, many (but not all) of these 'self-employed' workers would prefer to remain that way – although surveys show that many do want additional protections for their work and income regardless of their formal employment status.[3] Relatedly, the *Closing Loopholes Bill* does propose a new definition of 'employee' that repudiates recent High Court decisions (which virtually give corporations free reign to define any worker as a 'contractor' simply through the wording of their contract of engagement). On the whole, the 'regulated worker' provisions of the *Closing Loopholes*

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[1] See: House of Representatives (2023: 24).

[2] See: Macdonald (2023), and Peetz (2022) for more discussion of the risks faced by platform workers.

[3] See: D'Arcy and Gardiner (2014) and Berger *et al.* (2019) for more on the attitudes of platform workers and other self-employed.

Bill are relatively limited in the range of workers they will cover (self-employed and contractor workers outside of the two specified sectors will not fall under its protections), the scope of issues addressed (many issues like overtime pay are excluded from FWC orders), and its ability to regulate broader supply chains (other than in the case of road transport). Nevertheless, these reforms constitute an important step toward providing more protection to these specific groups of vulnerable workers, and could set a precedent to be applied to other insecure or non-standard employment situations.

The *Closing Loopholes Bill* also contains several additional measures: further changes to the definition and rights of casual workers (above and beyond reforms in the 2022 legislation), stronger rights for union delegates, increased penalties and administrative powers to prevent and police wage theft, and a new 'industrial manslaughter' offence to penalise employer negligence around workplace health and safety issues. The reforms have been fiercely opposed by business groups, who pledged to undertake multi-million-dollar advertising campaigns to undermine public support for the government.[4] At time of writing, the *Bill*'s fate in the Senate was unclear; key cross-bench Senators David Pocock and Jackie Lambie had moved to split the *Bill* into several components. The ACTU and its affiliated unions were mobilising to support passing the *Bill* in its entirety. Minister Burke was negotiating with targeted business interests, amending parts of the *Bill* to dilute opposition. The end product remained unpredictable.

National minimum wage

As noted above, the minimum wage was an important flashpoint during the latter days of the 2022 election campaign. Anthony Albanese supported a minimum wage increase to protect low-wage workers against inflation. In the end, the FWC broadly accepted that goal. One month after the election, it announced an increase in the minimum wage of 5.2%[5] – just

[4] These threats were intended to evoke memories of the infamous $22 million campaign undertaken by the Minerals Council and allied groups to defeat the Rudd government's proposed excess profits tax on mining companies in 2010; see: Davis (2011).

[5] The Commission's award provided for an increase of 4.6% in all Award wages, with a minimum increase of $40 per week; this corresponded to an increase in the national minimum wage of 5.2%, and increases ranging between 4.6% and 5.2% for other Award wages.

slightly above the latest year-over-year increase in consumer prices known at the time of the decision.[6] A year later, in June 2023, the FWC announced another strong minimum wage award: an increase of 5.75% in all Award wages, with an even larger 8.65% increase for the small proportion of workers (under 1%) receiving the bare minimum.[7]

While employer groups stated their usual concerns about negative impacts on employment and inflation,[8] the economy and overall employment held up well after these relatively large increases in the minimum wage. Employment and GDP growth remained positive, and the unemployment rate hovered at or near 3.5% – the lowest in decades. Nor did the minimum wage increase spark any surge in prices. Inflation accelerated in the second half of 2022, but clearly driven by global and energy market effects, not rising wages. To the contrary, wages continued to lag well behind consumer prices, discrediting predictions of 'wage-price spiral.' For nine straight quarters (beginning June 2021), the year-over-year increase in the Wage Price Index published by the ABS lagged below the corresponding increase in the Consumer Price Index, marking the longest continuous 'losing streak' for wages in postwar Australian history (and producing a cumulative decline in real wages of about 6%). By early 2023, inflation was decelerating rapidly, reflecting a fallback in world oil prices (and corresponding declines in petrol and other fuel prices in Australia) and the chilling impact of high interest rates – yet wage growth continued to lag behind prices, and real wages continued to decline. Given the small share of the national wage bill covered by the minimum wage and associated Awards, even a substantial minimum wage hike could not be expected to have a major impact on economy-wide prices (Jericho and Stanford 2023; Fair Work Commission 2023). If anything, higher wages (and hence stronger purchasing power) for low-wage Australians likely contributed incrementally to better macroeconomic performance, modestly countering the chilling effects of higher interest rates imposed by the RBA.

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[6] Year-over-year consumer price inflation in the 12 months ending in the March quarter 2022, the most recent ABS inflation data available at the time of the decision, was 5.1%. However, inflation accelerated in subsequent months, reaching a peak of 7.8% for the December quarter of 2022, and hence the real minimum wage declined in 2022-23 despite this relatively strong increase.

[7] The higher increase for those on the national minimum wage resulted from a reclassification of the wage category for minimum wage workers.

[8] As reported, for example, by Hutchinson and Durkin (2023).

These two relatively strong minimum wage increases announced by the FWC since the 2022 election were not the direct result of changes in explicit legislation or policy directives given to the Commission by the new government. Except for the inclusion of gender equality as an explicit object in the minimum wage process (discussed below), the minimum wage continues to be set as it was before the election: by a nominally independent industrial tribunal, receiving input from a variety of stakeholders, and instructed to balance goals of minimum living standards and fairness against conventional concerns with employment growth and macroeconomic stability. Nevertheless, it seems reasonable to conclude that the new government has influenced these minimum wage decisions in indirect ways – including by indicating its support (in formal submissions to the Commission, as well as public statements) for stronger minimum wage growth, and through more worker-friendly appointments to the Commission and its expert minimum wage panel (discussed further below).

Employment white paper

A key promise of the Labor Party in opposition was to deliver a *Full Employment White Paper* (Albanese 2021) – the first of its kind since the landmark 1945 paper chaired by H.C Coombes. After assuming government, the reference to 'full employment' was excised from the paper's title. Nevertheless, the final *White Paper on Jobs and Opportunities* (delivered in September, 2023; Treasury 2023) devoted considerable attention to the subject of full employment, and signaled important shifts in perspective on employment and macroeconomic policy.

The White Paper revisited an ongoing debate between a common-sense understanding of full employment (meaning a condition in which any willing worker can quickly find work), and the neoliberal meaning of the term – reflected in the doctrine of the 'non-accelerating inflation rate of unemployment' (NAIRU). In the NAIRU model (whose intellectual heritage traces back to Milton Friedman's 'natural rate'), unemployment must be deliberately kept sufficiently high (through monetary policy interventions) to restrain wage demands of workers and thus control inflation. This view assumes both that inflation normally arises from rising labour costs, and that central banks can effectively use interest rate adjustments to attain a level of unemployment just sufficient to maintain

inflation at a stable, target rate. Both the theory and the policy practice of NAIRU have been subject to strong critiques in recent years.[9] Its relevance is especially dubious in the context of the supply-side and global factors that were the primary spurs for inflation following the COVID pandemic (Quiggin 2023). Nevertheless, orthodox NAIRU thinking has maintained a strong grip on policy makers' attention in Australia. For example, prior to being appointed Governor of the RBA, then-Deputy Governor Michele Bullock suggested an unemployment rate of 4.5% was likely necessary to reduce inflation back to the RBA's target range (Bullock 2023).

In practice no systematic relationship between unemployment and inflation has been visible since the pandemic, confirming long-standing criticisms that the NAIRU is unobservable and unstable. Most recently, year-over-year inflation decelerated from 7.8% in December 2022 to 4.9% in October 2023, with almost no change at all in unemployment (which remained around 3.5% throughout). But this experience does little to dissuade the RBA and similar true believers in Treasury from their faith that the NAIRU is a robust and legitimate guidepost for macroeconomic policy. Like other central banks, the RBA's response to evidence that below-NAIRU unemployment is having no impact on inflation, is to simply change its estimate of what the NAIRU is!

The White Paper adopted a more pragmatic and literal definition of full employment: stating that it exists when 'everyone who wants a job should be able to find one without having to search for too long' (Treasury 2023: 17). Importantly, it also noted that job quality matters, not just quantity. 'What defines the right job will be different for different people, but there are common characteristics including job security and fair pay underpinning the wellbeing of workers' (Treasury 2023: 17). The White Paper also noted the importance of equity, 'giving attention to employment outcomes for specific groups and regions, as well as the aggregate national outcome' (Borland 2023).

The White Paper made clear that full employment is not solely about an absence of unemployment. Instead, policy also must take into account 'indicators that capture different groups, regions and aspects of labour market underutilization.' Meanwhile, the paper explicitly rejected the NAIRU as a policy goal, noting that it 'does not capture the full extent of spare capacity in our economy or the full potential of our workforce'

[9] See: Richardson (2019) for a recent critical review in the Australian context.

(Treasury 2023: 18). As a result, the paper concluded, 'the NAIRU should not be confused with, nor constrain, longer-term policy objectives' (Treasury 2023: 18).

While rejecting NAIRU doctrine, the White Paper did not define what unemployment rate would correspond to its more pragmatic vision of full employment. This could allow NAIRU thinking to remain dominant in practice, with organisations like the RBA and Treasury continuing to use (even implicitly) NAIRU-like targets to guide their forecasts and policy interventions. Moreover, there is no concrete vision in the White Paper for how to attain and maintain genuine full employment. It is certainly a welcome change to see the federal government championing a more expansive and hopeful understanding of full employment. But without a specific, actionable commitment to implementing that vision, the White Paper will likely be relegated to a symbolic role in the government's labour market strategising.

Public sector jobs and pay

The ALP's election platform also included an ambitious agenda of public service reform. Pledging to repair the damage caused by cuts and mismanagement under previous Coalition governments, the incoming government pledged to transform the Australian Public Service (APS) into a 'model employer' (Albanese 2022b; Gallagher 2022).

Notably, this included a commitment to engage in public-service-wide enterprise bargaining. Since 1999, APS bargaining has been conducted on the level of individual agencies, replacing the previous model of centralised APS-wide bargaining. The move to agency-level bargaining reflected the embrace of New Public Management (NPM) across the public service, which sought to make the public sector more like the private sector – including through purported 'flexibility' in employment and compensation practices.

In practice, however, agency-level bargaining has proved costly and inefficient, leading to a fragmentation of conditions across the APS (Williamson and Roles 2023). Through APS-wide bargaining, common core conditions could be established across all department enterprise agreements, facilitating both inter-agency mobility and greater fairness.

In addition to ameliorating fragmentation in bargaining, pay, and conditions, the Albanese government also pledged to reduce casualisation and outsourcing within the public service. The Coalition government had, since 2016, imposed an arbitrary cap on public sector staffing: keeping it at or below 2006-07 levels, despite the growth in Australia's population and corresponding demands on the federal public service. This led to a massive increase in insecure and contract work (Hamilton 2021). By investing in more secure and permanent jobs, the government pledged to rebuild public sector capacity (Gallagher 2022).

Additionally, the government committed to improving working conditions across the APS. Flexible working arrangements are to be offered to all APS staff members, regardless of length of service. As well, an APS-wide right to 18 weeks paid parental leave for primary and secondary caregivers has been offered by the government, with a removal of qualifying periods (APSC 2023).

By committing to establish public-sector-wide standards and conditions, reduce outsourcing, and transform the APS into a model employer, Williamson and Roles (2023) argue the Albanese government has repudiated NPM principles, and is moving towards a renewed ethos of public value. However, despite these promising initial steps, goodwill between the government and the Community and Public Sector Union (CPSU) has been strained over the question of pay. APS wages have not risen in line with inflation, with real pay (after inflation) declining close to 10% since 2013 (Mannheim 2023). APS salaries are also increasingly uncompetitive with private sector pay rates, causing difficulties with recruitment and retention (Bajkowski 2023).

In response, the CPSU demanded a 20% pay increase over 3 years. But this was branded 'impossible' by Senator Katy Gallagher, Minister for the Public Service – herself a former CPSU official (Barlow 2023). The government responded with successive counter offers, which would not even match forecast future inflation, let alone make up for past real wage losses and address the structural underpayment of public servants. Eventually the two sides reached an agreement that the CPSU recommended to its members in November 2023. However, broader aspirations of public service reconstruction continue to clash with the government's overarching commitment to fiscal conservatism, and hence it remains to be seen whether the promise of making the APS a model employer will be fulfilled.

Addressing the gender gap

In its first year the Labor Government also implemented a number of reforms directly addressing gender inequality at work. As well as including gender equality in the minimum wage and modern awards objectives (noted above), the *Secure Jobs, Better Pay* reforms inserted the promotion of gender equality into the objects of the *FWA* itself, thus elevating this as a core priority shaping the FWC's decision-making on any matter. This is a significant amendment; the gender equality objective is 'intended to reflect the policy objective of both formal and substantive gender equality,' meaning the FWC is instructed to promote equality of outcomes, not just opportunity (Charlesworth and Macdonald 2023).

New specialist panels are also being established at the FWC to build the Commission's capacity on issues like pay inequity, feminised work, and gender-based undervaluation. FWC members with relevant expertise will sit on Pay Equity and Care and Community Services panels that will hear cases relating to pay and conditions in the care and community sector, as well as other women workers (Parliament of Australia 2022: 67). These reforms, along with changes to the *FWA*'s equal remuneration and work value provisions, aim to overcome barriers that, to date, have seen the FWC fail to effectively address gendered undervaluation. It will take time to see if these changes achieve the intended objectives.

Meanwhile, changes to other FWC processes are also under way. A targeted review of modern awards to be conducted by the FWC in 2024 includes, as one of its four priorities, to 'ensure that modern award wages are set with regard to the amended objects of the *Fair Work Act* regarding gender equality and the elimination of gender-based undervaluation of work' (Burke 2023b: 1). Another priority for this review will see a consultation and research process to consider the impact of workplace relations settings on work and care, responding to recommendations made by a Senate Select Committee on Work and Care (2023) led by Greens Senator Barbara Pocock.

As discussed above, an early test of the new 'supported bargaining' provisions of the amended *FWA* has been launched by unions in the ECEC sector. In a second major case before the FWC, unions are seeking additional wage increases for low-paid aged care workers, over and above a 15% increase awarded by the FWC. The progress of this case will test the FWC's capacity to comprehensively eliminate gender-based

undervaluation, as well as the Government's readiness to fully fund the necessary wage increases.[10]

The *Secure Jobs, Better Pay* reforms included other reforms promoting gender equality, including new prohibitions on pay secrecy to improve transparency and reduce the risks of discrimination in pay. Breastfeeding, gender identity and intersex status were added to the list of protected attributes under the *FWA*, meaning employers are now prohibited from taking adverse action against employees because of these attributes. New prohibitions on sexual harassment in the *FWA* include pro-active obligations on employers to prevent harassment. Along with amendments to anti-discrimination legislation, these changes also implement outstanding recommendations of the *Respect@Work: National Inquiry into Sexual Harassment in Australian Workplaces* (AHRC 2020) that had not been acted on by the previous Coalition government.

The strengthening of flexible work provisions in the *FWA* responds to evidence that existing provisions were too weak (Senate Committee on Work and Care 2022: 106). With the changes, as many as half of all employees now have rights to request flexible work, including parents of school age or younger children, carers and workers aged 55 or over, those with a disability, pregnant women, and people experiencing or supporting someone experiencing family violence. However, the changes fall short of the recommendation of the Senate Select Committee on Work and Care (Parliament of Australia 2022b: 190) that the flexible work right be available to all workers, to 'remove the stigma attached to its use when confined to carers.'

In a separate reform, the *Paid Parental Leave Amendment (Improvements for Families and Gender Equality) Bill* was passed in March 2023, extending paid parental leave and making it more flexible. These initiatives were widely welcomed, although criticism remained that the scheme falls well below international best practices regarding length of leave and level of wage replacement – nor does it include superannuation payments. Another piece of legislation, the *Fair Work Amendment (Paid Family and Domestic Violence Leave) Bill*, amended the *FWA* to provide 10 days of paid family and domestic violence leave under the National

[10] The government has committed $11.3 billion to support the initial 15% wage increase (Department of Health and Aged Care 2023), but additional funding will be required if the FWC approves further increments.

Employment Standards (NES). This is the first paid leave provision in the NES that applies to casual workers.

As a set, these measures constitute a significant commitment to addressing gender inequality in Australia's labour market. They will make a measurable difference in the lives of many women workers and their families.

Fair Work Commission appointments

The most high-profile and controversial elements of the Albanese government's industrial relations agenda have been the successive packages of legislative reforms to the *FWA*. However, a less obvious way the government is working to bring better balance to the landscape of industrial relations in Australia is by renewing the make-up of the Fair Work Commission and its various panels.

In its first year in office, the government appointed 13 new members to the Fair Work Commission. All these new members hail from union or union-friendly backgrounds. Yet, even with these appointments, the tribunal remains heavily weighted in favour of employer interests since, according to the government's count, 26 of the 27 permanent appointments made by Coalition governments over the previous nine years came from employer backgrounds (Burke 2023a).

A changing of the guard was also apparent in the Commission's expert panels, including the new panels created to review gender equality and care work cases, and the panel overseeing the Commission's annual wage review case (Burke 2023c). In March 2023, Minister Burke appointed three new external panel members: University of Sydney professor of gender and employment relations Marian Baird, economist Leonora Risse from RMIT, and retired Treasury economist Mark Cully. In addition to the new expert panels, Baird and Cully will also serve on the FWC's panel overseeing the annual minimum wage case. These appointments shift the balance of the FWC's expert panels in favour of a more pro-active and egalitarian approach to wage setting, in contrast to the more business-oriented, neoclassical economic orientation visible in recent years.

The Commission itself has a new President, following the retirement of Justice Iain Ross (who served in that role since 2012, and was once assistant secretary of the ACTU). Ross has been succeeded by Justice

Adam Hatcher, who served as a Vice President of the FWC since 2013, and previously worked as a counsel for the Transport Workers Union.

Without doubt, industrial relations outcomes are ultimately shaped by structural, legal and economic factors; and progressive appointees to the FWC and its panels can always be replaced by a subsequent right-wing government. Nevertheless, these appointments of individuals with a clear commitment to the goals of collective bargaining and wage equity will surely have some incremental impact on the Commission's interventions, helping to shift industrial relations in a progressive direction. The Albanese government deserves credit for wielding its appointment powers in a more determined and strategic manner than past ALP governments which often adopted the rhetoric of 'balance' in making their own appointments, despite the unapologetic pro-employer bias visible in Coalition appointments.

Conclusion

The Albanese government's election victory occurred amidst widespread frustration with a decade of unprecedented wage stagnation and growing inequality – topped off with a more urgent cost-of-living crisis after the COVID pandemic. While the ALP made few specific industrial relations promises in its election platform, it communicated a generic concern for the economic struggles of workers, and a broad commitment to lifting wage growth as a goal of macroeconomic policy. This orientation helped win the election. Its actions in its first year in office constitute an incremental but significant rebalancing of industrial relations in favour of workers – featuring both explicit changes to industrial laws and collective bargaining practices, as well as adjusting other policy levers in the interests of protection and equity for workers. The government has managed these initiatives while so far maintaining a cooperative relationship with the trade union movement. which is anxious to achieve more significant and lasting changes under this ALP government than was the case under the previous Rudd-Gillard regime.

One indication of the impact of these recent changes is the fact that wage growth has already accelerated notably, reaching a pace well above any period during the previous Coalition government's nine years in power. By September 2023, average wages were growing at 4% year-over-year, the fastest since the Global Financial Crisis. Some of that pick-up reflects

macroeconomic conditions well beyond the immediate purview of the new government: the fight by workers (individually and collectively) to keep up with inflation, reinforced by historically low unemployment and consequent labour recruitment and retention challenges for many employers. Relative to inflation, real wages had stopped falling by mid-2023, but still had much ground to recover from the sustained losses of the previous two years. Nevertheless, the government deserves some credit for this progress on wages – including via its successive *FWA* amendments, support for collective bargaining, encouragement for stronger minimum wage adjustments, and its other equity-promoting policy changes.

On the whole then, the Albanese government has made cautious but useful progress on industrial relations and labour issues during its first year. However, it must be acknowledged that the overall labour relations regime in Australia remains heavily skewed in favour of employers and against unions; the worrisome longer-run trends which have restructured the labour market under neoliberalism will surely continue without further, more far-reaching changes in law and policy. In particular, the erosion of union density and enterprise agreement coverage will likely persist without powerful measures to directly overcome barriers to workers' organisation, representation, and collective action. The latest ABS data indicates that union membership declined to 12.5% of employees in Australia in August 2022, the lowest in modern history. Coverage by current enterprise agreements also plumbs record lows: just 15% of all employees were covered by current federally regulated agreements as of June 2023, including only about 10% in private sector workplaces. The vast majority of Australian workers thus lack the protection and collective power that can be provided by unions – and this has been a deliberate goal of neoliberal labour market policy.

Incremental improvements in statutory protections will have only limited long-term effect as long as workers' independent power base continues to erode. Addressing the high barriers to workers' self-organisation still embedded in the *FWA* (including its full legal protection for 'free riding'[11], restrictions on union rights of entry and representation, and limits on industrial action) will be essential to achieve more fulsome working class progress.

[11] See Stanford (2021) for description of Australia's uniquely repressive anti-union laws.

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HOUSING POLICY

Hal Pawson

Arguably the first significant shot of the 2022 federal election campaign came in then Opposition Leader Anthony Albanese's 2021 budget reply speech when he pledged that: 'A Labor Government I lead will establish a Housing Australia Future Fund, building thousands of new homes for our most vulnerable Australians – and creating thousands of new jobs for workers' (Albanese 2021). The Housing Australia Future Fund, or HAFF, was to deliver 30,000 social and affordable rental homes[1] in its initial phase, the first such national program in 15 years.

Announced more than a year ahead of the 2022 election, and with a headline-grabbing price tag of $10 billion, the HAFF was the early centrepiece of Federal Labor's emerging electoral platform. In the context of Albanese's decidedly small-target election strategy, it had much to commend it as a dividing line with the Morrison Government. After all, here was an administration which, defying rising public concern and expert commentary, had for almost a decade steadfastly resisted all calls for stepped-up social housing investment (*e.g.* Whitzman 2015; Martin 2020; Gittins 2021). Moreover, while portrayed as a big-ticket item in Albanese's speech, the HAFF mechanism also kept faith with the

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[1] Social housing is an umbrella term for deeply subsidised housing targeted at very low income groups and, in Australia, usually rented out at 25% of the tenant's household income. In Australia, social housing is provided by state/territory governments ('public housing'), by not-for-profit community housing organisations (CHOs), and by Indigenous housing providers. Affordable rental housing refers to homes targeted at low to moderate income households (sometimes 'essential workers') where rent is moderately discounted with respect to the market rate (often at 75-80% of market rate equivalent) or set at 30% of household income. In Australia, affordable rental housing is provided by both CHOs and private landlords.

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overarching fiscal caution of the Labor Party's wider 2022 election strategy. As a future fund venture, social and affordable housing investment would be enabled via equity returns from the capital markets, not through tax revenue or additional long term net debt (Grant and Quiggin 2003; Coates 2023).

In late 2023, the HAFF finally passed into law, although its Parliamentary passage proved far more contested than envisaged. In assessing the Albanese administration's early record on housing, the reasons for this deserve some attention. However, given this article's aspiration to present a broader review of the new government's housing policy reforms and commitments, the HAFF must be viewed within the context of Labor's wider housing offer presented at the 2022 election and the additional housing initiatives announced during the first phase of the 2022 governmental term. This article therefore proceeds in four steps. First, it summarises the key dimensions of the housing policy challenge confronting the new government as it took power in 2022. Second, it identifies the main housing commitments pledged by Albanese in his election platform and subsequently when in office. Third, it assesses their scale and fitness for purpose in the light of the housing legacy inherited by the new administration. Finally, the article offers reflections on where housing policy could go from here.

Australia's housing policy challenge

The 2022 poll was the fourth of the past six Australian general elections where housing was a major site of party contestation. Especially since this had been rare in the decades to 2007, it speaks of a system that has become increasingly stressed, experiencing structural rather than cyclical underperformance (Yates 2011). The immediate post-COVID period saw a whole new set of housing tensions come to the fore – predominantly involving sharply rising rent and mortgage payments as household numbers have surged and interest rates have climbed. However, without denying the potency of these difficulties and the pressures on government for responsive actions, it is the more fundamental and enduring problems of the Australian housing system that should be kept front of mind when considering the efficacy of the Albanese government's policy actions and reform commitments.

While recognising that Australia's contemporary housing policy challenge is complex and multi-faceted, it is useful to identify four key features that encompass much of the agenda:

- declining home ownership affordability
- a private rental market increasingly unable to affordably accommodate low income Australians
- growing deterioration and scarcity of social housing
- housing as a major contributor to carbon emissions.

The problem of ownership affordability is an obvious starting point because, while there is no single index that simply and unambiguously captures this, few would deny that entry to home ownership has become ever more challenging over recent decades. And, although this is not the sole contributory factor, declining first home purchase affordability is the prime cause of falling ownership rates. Young adult (age 25-34) home ownership fell by six percentage points between 2006 and 2021, and by 17% since 1981 (Whelan *et al.* 2023a). Moreover, first home acquisition is increasingly dependent on family financial assistance, a situation that is magnifying inequality down the generations (Whelan *et al.* 2023b).

Concurrently, Australia's private rental market has been expanding ahead of population growth for some thirty years. However, even after allowing for receipt of Commonwealth Rent Assistance by nearly 1.35 million renters in 2022, 44% of recipient income units (households) remain in rental stress (AIHW 2023). Moreover, the market's efficacy in generating tenancies affordable to low income households has been in long-term decline. Census-based analysis estimates that the national deficit in private rental homes affordable to income quintile 1 households grew from 48,000 dwellings to 212,000 dwellings in the 20 years to 2016 (Hulse *et al.* 2019).

Social housing provision for the lowest income Australians has remained almost static, despite ongoing population growth, since the demise of a routine national public housing construction program in 1996 (Pawson *et al.* 2020). The result is that social housing's representation in the housing stock has declined from six per cent of all occupied dwellings at that time to only four per cent today. 'True supply' – that is, the number of annual lettable vacancies – has declined more dramatically, down by 44% since 1991. Proportionate to population, the drop is more than 60% (Pawson and Lilley 2022). In combination with declining private rental affordability (see above), the growing shortfall in social housing relative to need is

likely to have contributed to rising homelessness (Pawson *et al.* 2022). More broadly, at least in recent years, public housing waiting lists have lengthened – up by 24% to 175,000 in the period 2018-22 (Productivity Commission 2023). A 2021 census-based estimate put unmet need for social housing at 437,000 households (van den Nouwelant *et al.* 2022).

Finally, it is important to recognise the emergence of a fourth major housing policy challenge: the generally inadequate energy performance of both new and existing housing stock that puts the achievement of official aspirations for 'net zero' carbon emissions by 2050 seriously in doubt. One analyst of this crucial issue reports: 'four in five new houses are being built to the minimum [energy] standard and a negligible proportion to an optimal performance standard' (Moore *et al.* 2019).

Looking across all these four dimensions of the housing situation, there is an arguable case that the problematic housing legacy of recent decades is at least partly due to the declining efficacy of housing policy which, in turn, partly reflects the emasculation of housing policymaking capacity within government. As argued elsewhere (Pawson *et al.* 2020), housing strongly exemplifies the wider tendency towards the so-called hollowing out of government in the neoliberal era (Jessop 2004; Tingle 2015). The result is that Australia has seen a long-term trend of housing policymaking fragmentation and downgrading. Stand-alone housing departments have been merged with human services or other departmental mega-structures. Teams with accumulated housing domain knowledge have been disbanded. Specialist housing agencies and inter-governmental co-ordination mechanisms have been scrapped.

Housing commitments: the government's first 18 months

The Albanese government can fairly claim a high level of activity in the housing field in its first year. As shown in Table 1, most of Labor's 2022 electoral commitments and were being enacted by late 2023.[2]

[2] While some of the measures listed in this Table are explained in general terms in the text below, the attempted explanations in some cases necessarily involve a degree of speculation, since government has as yet divulged few details of certain key initiatives (*e.g.* Housing Australia Future Fund, National Housing Accord). Some analyses of the flagship Housing Australia Future Fund have been published elsewhere (*e.g.* Coates 2023; Knight 2023; Pawson 2023a).

Table 1: Albanese Government housing expenditure programs and reform commitments proposed or enacted 2022-23

Commitment	Commitment type	In platform?	Associated expenditure	Comments
Housing Australia Future Fund ($10 billion capital market investment)	Expenditure program	Yes	$12.5 billion (2023$) over 25 years[1]	Subsidy to underpin development of 30,000 social and affordable homes in five years. Partly or fully offset by earnings on the HAFF.
Housing Accelerator Fund	Expenditure program	No	$2 billion over 2 years	Cash grant to state/territory govts for social housing investment - approx 5,000 dwellings
National Housing Accord affordable rental housing program	Expenditure program	No	$1.75 billion (2023$) over 25 years[2]	Subsidy to underpin development of 10,000 affordable rental homes in five years
15% increase in maximum Rent Assistance payable	Expenditure program	No	$2.68 billion over 4 years (forward estimates)	Payment structure and annual up-rating formula remain unchanged
Help to Buy shared equity ownership scheme	Expenditure program	Yes	Not known	Not yet legislated 2023

New Home Bonus	Expenditure program	No	$3 billion	State/territory governments incentivised to enable ‘additional supply’
Housing Support Program	Expenditure program	No	$500 million	Housing-enabling infrastructure funding for local government
Residential energy efficiency fund	Financing facility and expenditure program	No	$1 billion	Mainly low-cost finance via Clean Energy Finance Corporation, but also $300 grant for social housing
Expand National Housing Infrastructure Facility	Financing facility and expenditure program	No	$1 billion[3]	Low cost loans and (some) grants to enable social housing development
Expand low-deposit home ownership guarantee scheme	Financing facility	Yes	Not knwn	Established under Morrison Government
National Housing and Homelessness Plan	Institutional reform	Yes	Not applicable	Under development 2023
Establish National Housing	Institutional reform	Yes	Minimal	Established on interim basis 2023

Supply and Affordability Council				
Establish Housing Australia as national housing agency	Institutional reform	Yes	Minimal	Upgrading of National Housing Finance and Investment Corp
National Housing Accord overall supply target: 1.2 million homes in 5 years	Multi-agency collaboration	No	Minimal[4]	Involves all Australian governments, superfunds, local government
Tax reform to incentivise build-to-rent housing development	Tax reform	No	Minimal	Presented as 'equalisation' of tax rates for overseas investors
National private rental reform program	Multi-agency collaboration	No	Minimal	Aspiration to lead process of reform and harmonisation by state/territory governments via National Cabinet

Sources: 2023 Budget papers and other sources.

Notes: (1) Guaranteed annual disbursement: $500 million, term duration assumed to mirror NSW Government Social and Affordable Housing Fund. (2) $70 million p.a., assumed to be committed for 25 year term. (3) Mix of financing and funding officially unspecified. (4) Excludes funding commitment to affordable rental housing program (separately specified in table).

Significantly, Table 1 includes not only actions taken by the government to implement electoral commitments, but also several significant housing measures have been announced and initiated during the current term – albeit that some were evidently devised in the context of Parliamentary bargaining in efforts to secure Senate support for key legislation.

Several of the initiatives described in Table 1 involve expenditure programs, but the value of associated commitments is generally very small in relation to the annual value of residential property-related tax concessions, which totalled around $8.5 billion for private landlords in 2022-23, rising to $20 billion by 2032-33 (Martin 2022) plus some $60 billion for owner occupiers. And, of course, the housing expenditures are tinier still in relation to the approximately $500 billion total annual federal government spending (Australian Treasury 2023). Notably, only one of the items listed in Table 1 relates to tax reform – in that instance, applicable to only a very specific niche element of the housing system.

Unpacking policy themes

The array of policy commitments itemized in Table 1 can be regarded as embodying four underlying Albanese government housing policy themes:

- direct assistance to benefit low income groups
- direct assistance to marginal first home buyers
- measures to promote market housing supply
- institutional reform.

There are two exceptions to this generalisation. Firstly, the energy efficiency funding and financing initiative is a policy very much associated with the far broader objective of climate change mitigation, and probably not officially considered a housing policy *per se*. Secondly, there is the aspiration to lead an Australia-wide private rental reform program (Prime Minister of Australia 2023) – potentially an important instance of national leadership, but one where the relevant powers reside wholly with state/territory governments. Setting these exceptions aside, the following commentary critiques the rationale and fitness for purpose of key policy measures under each of the four principal housing policy themes.

Direct assistance to benefit low income groups

Two of the most significant housing expenditure commitments so far pledged by the Albanese government (see Table 1) fall under this heading: the HAFF and the one-off increase in the maximum payable via Commonwealth Rent Assistance (CRA). Gauged in relation to the inaction of the previous decade, both initiatives must be judged significant contributions to relieving rental stress. However, that is a low bar. Both initiatives are extremely modest in relation to the scale of the relevant policy challenges as summarised earlier.

The HAFF will inject new social and affordable housing supply, supplementing the flow of annually allocated vacancies predominantly involving the re-letting of existing (and in many cases run down) social rental homes. The initial 30,000 HAFF tranche is set to involve two thirds social and one third affordable rental homes.

Assuming that HAFF-funded dwellings come onstream within a five-year time-frame, and also referencing baseline annual national net letting supply[3] at around 29,000 (Pawson and Lilley 2022), 4,000 extra lettings per year will expand that supply by approximately 14% over the period.[4] Similarly, the additional 20,000 social homes would expand the national total housing stock by just under 5% – and, given that some projects are likely to also involve the loss of existing social housing,[5] probably substantially less than that. Gauged in terms of the share of total housing constituted by social housing, 4,000 new homes per year is significantly less than even a low estimate of the *net annual addition* needed to simply maintain the status quo (*i.e.* to maintain social housing representation at 4% of all occupied dwellings)[6] (Coates 2021). Moreover, set against the levels of unmet need cited earlier in this paper, and even when we also

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[3] This refers to the annual number of social rental tenancies let to new tenants by public housing agencies, community housing providers and Indigenous housing organisations.

[4] In the longer term, there will be a small additional increment to annual lettings deriving from the re-letting of HAFF-funded dwellings when initially housed tenants vacate.

[5] That is, where sites developed under the HAFF are part of 'housing renewal' projects – *i.e.* where former social housing has been demolished for replacement.

[6] Although it is fair to acknowledge that state and territory governments can – and occasionally do – commit to social housing investment through self-funded programs that also contribute to overall supply. Recent initiatives by the governments of Queensland and Victoria are important cases in point (Pawson *et al.* 2021).

consider the additional supply boost from the Housing Accelerator fund, the HAFF's increment to provision is decidedly small. Only if the program is both expanded and extended (Pawson 2023a) will the effect be significant.

Turning to the 15% CRA enhancement, this has been officially celebrated as 'the largest increase in more than 30 years' (Karp 2023). At the same time, there are reasoned arguments for a far larger rise. According to the rationale laid out by Bradbury (2023), for example, the increase should have been 100%. Beyond this, there are serious flaws in the structure of CRA that call for detailed attention extending far beyond a simple amendment to maximum payment amounts (Pawson 2023b).

Direct assistance to marginal first home buyers

As detailed above, the Albanese government has moved away from the near-exclusive housing policy focus on home ownership that was the hallmark of predecessor Coalition governments. Direct assistance to marginal first home buyers nevertheless remains an important priority, as signified by expansion of the Coalition-established national low deposit mortgage scheme, now branded the Home Guarantee Scheme (HGS). With their mortgage applications underpinned by a government guarantee, qualifying first home buyers can secure a home loan via a down payment amounting to only 5% (or, exceptionally, 2%) of property value – rather than the 20% deposit normally required by mortgage lenders. In practice, the HGS functions mainly to bring forward access to home ownership for households likely to achieve it anyway after a longer savings period. In common with most interventions of this kind, it is unlikely to extend access to home ownership significantly down the income scale (Pawson *et al.* 2022).

The Albanese government has extended the HGS to encompass up to 50,000 first home buyers per year – around half of the annual national first home buyer cohort. By that measure it must be counted a fairly large-scale market intervention. At the same time, since it does not require any significant public funding, this is a classic 'light touch' policy measure consistent with neo-liberal governance orthodoxy.

Labor's 2022 election platform also envisaged a national home ownership shared equity program dubbed 'Help to Buy' (HtB). Under this model, via a 'second mortgage', government takes a 30-40% interest in a dwelling

acquired by a qualifying home buyer, thus enabling the beneficiary to achieve dwelling ownership for a significantly smaller home loan and equity contribution than otherwise required. Similar schemes already operate at small scales in certain states and internationally (Pawson *et al.* 2022). This is a more interventionist mechanism than the HGS because it calls for commitment of public funds – as required to underpin the government share of acquired property value. The upside is that, when the home is sold or their equity bought out by the resident, and assuming property market appreciation over time, government recoups its share of this increment in addition to its original stake.

Since it can enable home ownership for a purchaser whose income is sufficient to support only 60-70% of a home's value, HtB could slightly reduce the income threshold for home ownership access for those benefiting. However, perhaps mainly in recognition of the upfront costs involved, an annual limit of 10,000 approvals has been proposed.

Notably, HtB is Labor's only 2022 election platform housing commitment that remained to be progressed by late 2023. Further to this, the government faces the risk of being unable to legislate the program through the Senate. It has been criticised by the Coalition on the grounds that first home buyers will dislike the idea of '[having Anthony] Albanese at the kitchen table with you, owning part of your home' (ABC News 2022). Meanwhile, the Australian Greens have queried the workability of proposed scheme rules, while also suggesting it might be blocked in the Senate in an attempt to secure Labor acquiescence to reform of private landlord tax concessions (AFR 2023).

Measures to promote market housing supply

Arguably, none of the policies that directly advantage first home buyers – neither the HGS, HtB, nor the more traditional cash grants and stamp duty concessions – directly confront the fundamental problem of over-expensive housing (Eslake 2013; Pawson *et al.* 2022). Being mindful of this, the Albanese administration has pitched to boost *overall* housing supply, under its National Housing Accord (NHA) agreement with state/territory governments and others. NHA signatories must use best endeavours to enable construction of at least 1 million – aspirationally, 1.2 million – homes in the five years from 2024 (Prime Minister of Australia

2023). Considering that this would represent an increase of around a third on 2023 housebuilding rates, it is a challenging target.

Notably, alongside well-worn words about Australian governments' mutual commitment to relaxing land-use planning restrictions and streamlining procedures, NHA aspirations are also supported by new Federal funding in the form of the $3 billion New Home Bonus – a scheme to 'incentivise states and territories to undertake the reforms necessary to boost housing supply and increase housing affordability' (Prime Minister of Australia 2023). This appears to emulate recent initiatives in both the UK (Wilson *et al.* 2017) and Canada (Liberal Party of Canada 2021). Under the UK scheme, it is local authorities that are 'incentivised' to facilitate more housebuilding. However, an officially commissioned evaluation found that 'whilst many local authorities understood the [mechanism] as a potentially powerful incentive, very few felt it had any effect on decision-making' (Inch *et al.* 2020: 720). Assessments have also judged it difficult to conclusively quantify the housing construction additionality attributable to the scheme (Wilson *et al.* 2017).

Whether the Australian version of the model will have a more decisively positive impact remains to be seen, but there is reason for scepticism about any strategy to enhance housing affordability based on the belief that market housebuilding activity is primarily determined by regulatory constraints. In reality, the prime consideration for private developers and their financial backers is expected market conditions when constructed homes are saleable (Gurran and Bramley 2017). Even if a construction boost could be evoked by planning de-regulation, it is unlikely that this would continue in the face of the more stable or falling property prices that the policy proponents hope would result. Such behaviour is not argued as malevolent; it is simply rational business logic for a profit-making entity operating in a market where the fixed supply of land incentivises land-banking in the hope that development will yield greater returns when prices rise again.

As indicated in Table 1, current government plans envisage some 40,000 of the 1.2 million homes being social and affordable rental units, part-funded by Federal subsidy. However, if the Prime Minister is serious about meeting the ambitious NHA objective, he may need to consider more direct government involvement in housing production. Ideally, this would include the commitment to the substantial additional social and affordable housing investment in any case required to seriously address the scale of

unmet need as outlined earlier. He might even contemplate the recent union-sponsored proposal for hugely ramped-up social housing construction funded by a corporate super-profits tax (Thompson 2023).

Equally, other Australian governments could be encouraged to emulate emerging thinking in NSW (Koziol and Snow 2023) in looking to revive the government commissioned build-for-sale model of the 1950s and 1960s (Pawson *et al.* 2022). That is, homes constructed for sale at cost price on land owned by government or potentially acquired for the purpose through compulsory acquisition powers.

Institutional reform

Housing policy governance innovations also form a notable element of the Albanese government's unfolding housing reform agenda (see Table 1). As argued above, a significant share of the blame for Australia's weak housing record in recent decades can be attributed to fragmented and inadequate policymaking capacity.

Consistent with this critique, the new government has creditably elevated the Housing Minister to Cabinet, as well as (re)establishing an expert panel in the form of the National Housing Supply and Affordability Council and a national housing agency, Housing Australia. However, and especially since the Housing Minister lacks her own department of government, the designation of Housing Australia as purely a delivery agency (*e.g.* HGS and HAFF administration) with no policymaking remit seems highly questionable.

Even more concerning are early indications that the proposed National Housing and Homelessness Plan (Australian Government 2023) may fall far short of a fit-for-purpose rationale for the array of post-2022 initiatives already in train and, more importantly, a meaningful framework for the much wider and more ambitious housing reforms required. As argued elsewhere, the Issues Paper produced as a basis for consultation on the Plan is wholly inadequate for the purpose. Not only is it narrowly framed around housing assistance rather than the housing system, but it lacks any serious analysis of the housing policy challenge that the Plan must address; and it is virtually silent on crucial policy levers such as tax settings (Mares 2023; Pawson 2023c).

Conclusions

During the first half of its 2022 term, the Albanese government has been highly active on housing matters. It has not only progressed almost all its relevant election platform pledges, but also brought forward several other notable initiatives. Compared with the preceding federal government's inaction of the previous decade, this demonstrates significant commitment. The nature of this activity also maps quite well onto key dimensions of Australia's multi-faceted housing policy challenge, as outlined earlier.

However, many of the measures so far announced remain both disconnected from one another and extremely modest in relation to the scale of that challenge. To make a fundamental difference, they will need to be both expanded and extended, as well as complemented by a tax and regulatory reform agenda so far eschewed. If they prove to be an initial down payment on more ambitious future action, measures to date may be judged a positive and significant contribution. If not, they will be accorded little importance by policy analysts of the 2030s.

All, therefore, hinges on the Albanese government's level of future housing policy ambition. At the time of writing, this remains very unclear. The high level of activity to date lacks any declared overarching rationale or framing. And, while this could (and should) be provided by the National Housing and Homelessness Plan, the early indications from the NHHP development process do not inspire confidence. The NHHP should, for example, provide a vehicle for re-considering the kinds of property tax innovations and reform of rental assistance that the Henry Review of Taxation proposed in 2010. The government should be encouraged by recent survey evidence showing majority public support for raising additional revenue from phasing down landlord tax concessions and using that revenue for investment in social housing (Per Capita 2022).

In all this, the essential need for a meaningful long-term national housing strategy cannot be overstated (Martin *et al.* 2023). Clearly, such a structure can never guarantee ongoing progress; only in combination with enduring political commitment can it prove effective. If either is lacking, there must be a serious risk that, like the Rudd government's housing hyperactivity (Milligan and Pinnegar 2010), the recent burst of largely positive housing policy action will quickly dissipate with little to show for it by the latter part of this decade.

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SOCIAL POLICY

Ben Spies-Butcher

Labor's small target strategy and its acceptance of conservative fiscal priorities has left many progressives frustrated. Reflecting on the history of Labor governments since the period of liberalisation, this outcome is less surprising. Containing state finances and balancing budgets is now firmly established as a bipartisan political imperative, displacing the social claims that once animated progressive politics. There is, however, some cause for cautious optimism. Labor's commitments to better combine work and care point to a more ambitious politics centred within social reproduction, while changes to budget practices indicate a willingness to raise the government's fiscal horizons. Reconciling a new wave of reformist energy with Labor's technocratic approach to governance will be an important challenge, and one broader civil society and parliamentary allies will need to play a key role in resolving.

Labor's first term social policy has been cautious. Having won office with a relatively modest fiscal platform, its most prominent commitments were either to be phased in gradually or, like the National Independent Commission Against Corruption or the referendum on an Indigenous Voice to parliament, have little fiscal impact. Fiscal moderation is at the heart of Prime Minister Anthony Albanese's long-term electoral strategy and his call for Labor's base to limit their horizons to the current budget envelope. Labor's modest agenda has frustrated many, but the strategy is more familiar than surprising, reflecting both recent electoral history and a longer-term shift in Australian politics.

The Coalition won the 2019 election opposing Labor's plans to remove tax concessions and thus increase tax revenues. Prior to the pandemic, its focus on constraining spending led to the illegal Robodebt tragedy, but

Spies-Butcher, B. (2024)
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also allowed Treasurer Josh Frydenberg to (somewhat pre-emptively) claim the budget was 'back in black and Australia is back on track'. In response, Labor committed to limit public debt *and* taxation Labor's most ambitious fiscal plans were provided by its opponents – the Stage 3 tax cuts and mid-bogglingly costly AUKUS military deal – both of which were affirmed by Labor to neutralise issues it saw as strong for the Coalition.

Since the early 1980s Australian Labor has adopted a fiscally conservative approach to government. To distance itself from the record of the Whitlam government, Bob Hawke committed to the 'Trilogy' – promising to restrain public finance by limiting taxation, expenditures and debt as a proportion of GDP. That fiscal straight-jacket was reaffirmed by the incoming Rudd Government more than twenty years later, and is echoed in the current Labor Treasurer Jim Chalmers' celebration of a budget surplus, achieved through tight spending controls in the midst of falling real wages and a cost of living crisis.

Drawing on a recent analysis of how liberalisation has changed the politics of welfare in Australia (Spies-Butcher 2023), I examine the new government's social policy agenda and prospects for a more egalitarian strategy. Liberalisation has brought fiscal politics centre stage, and with it technocratic debates over the framing of public and private finance. Anxious to avoid budget scare campaigns, Labor governments have shrunk their aspirations. The modest progress that has been made has come through movement alliances built within the welfare state itself, which unite citizens around the provision of care and challenge conventional measures of value.

The result is a more complex picture than often imagined. Social protection and market competition have been combined differently in different domains, leading to divergent outcomes and political dynamics. Overt residualisation has advanced alongside a 'dual welfare state' of tax concessions that conceal generosity to private providers and the upper middle class (Stebbing and Spies-Butcher 2010). States have also sought to expand access and equity by reshaping public power in market terms, expanding access alongside technocratic governance.

Labor's latest term of office continues three important legacies of Australia's post-liberalisation approach to social policy. First, its strong commitments to fiscal constraint have seen timidity and tinkering in the face of significant economic and egalitarian challenges. Positive changes have been made, but these have been modest and targeted, avoiding bigger

political battles. Second, when faced with political pressure to expand social support, Labor has looked to shift spending off budget, creating increasingly complex and marketized mechanisms to circumvent fiscal constraints. Finally, Labor's more significant commitments reflect the changing politics of welfare, the growing strength of care unions in the labour movement alongside the rise of working women as an electoral constituency.

Tweaking the safety net

The campaign to raise the rate of JobSeeker received a significant boost during the pandemic. Part of the Coalition's response was to temporarily expand social security, effectively doubling JobSeeker and reducing conditionality (Ramia and Perrone 2023). It left many low income people better off (Davidson 2022), with significant improvements in health and wellbeing (Klein *et al.* 2022). In opposition, Labor agreed that the payments should be permanently raised, but failed to commit to that during the election campaign. Instead, it tied its philosophical commitment to ensuring that payments are adequate to its budget priorities (Stayner 2022).

Following Senate negotiations to pass industrial relations changes, Labor formalised its fiscal assessment, creating a new committee to examine payment adequacy for each annual budget. Despite the committee finding payments to be well below any reasonable definition of the poverty line (IEIAC 2023), the government only committed to a modest $20 a week rise, less than the rise instituted by the previous Morrison Coalition government in the wake of the pandemic.

Labor instead sought more targeted solutions. As inflation rose and real wages fell, the government made a series of modest changes (Treasury 2023a). Rent assistance was increased by 15%. Higher payments for older claimants were extended from those over 60 to those over 55. Eligibility for less conditional and higher parenting payments was also extended to parents with slightly older children, partly reversing decisions by the Howard and Gillard governments. Even incentives to expand bulk billing were targeted to children and older people (Treasury 2023b), undermining Medicare's universality.

The largest immediate spending was for new energy rebates. The rebates also reflect the importance of how economic measures are used, repeating an earlier Labor strategy (see: Spies-Butcher 2023: 79) to structure support

so that it could be accounted for as lowering energy prices (thus lowering inflation and the likelihood of further interest rate increases) rather than as increasing spending.

Taken together, these measures are not insignificant. However, each change also reflects Labor's strongly technocratic approach to social policy. Targeting has long been a central plank of Australian welfare, but attention to small incremental changes at the margin of various payments is increasingly Labor's core social policy response to inequality. A significant increase in revenue forecasts ensured the changes could also be funded while maintaining a budget surplus. Without that unexpected fiscal windfall, Labor's response may have been even more meagre.

Focusing on making minor changes to benefit rules can be an efficient means of managing technical definitions of inequality and need, but can also distract from making the political claims necessary to establish rights, build constituencies and defend entitlements. It reinforces the complexity of a system riddled with poverty traps and the residualisation of benefits as a whole. When budget pressures tighten, Labor often rewinds the very gains it previously instituted, as it did in 2013 when it froze the indexation of eligibility for family benefits. The freeze has remained in place ever since, leading to a steady and now significant decline in the proportion of families able to access what was one of the few relatively universal elements of the Australian system (Klapdor 2022).

Moving off-book

Another legacy of liberalisation in social policy is an ongoing and highly technocratic effort to restructure social spending so that it no longer counts against the budget bottom line. The most obvious example under the Albanese government is its response to the housing crisis. Its core policy commitment on housing is the Housing Affordability Future Fund (HAFF), although similar accounting logics underpin new support for first home buyers. Building on several other 'off budget' measures, the HAFF involves public borrowing to finance investment in financial assets. Under the model, (public) debt is offset by a (market) asset, which moves the entire operation off the annual budget and into the (recently created) public balance sheet.

The HAFF allows the government to leverage its own risk profile, by paying a lower rate of interest on its bonds than it expects to receive from

its market investments. The difference is then directed towards housing. However, the HAFF does not purchase housing. Instead, the revenue is used to provide non-profit housing providers with a subsidy to make up the difference between their expected income from social rents and their operating costs (Thomas and King 2022). This allows providers to secure market finance. This remarkably round-about HAFF model highlights the power of public budget rules. By marketizing and financilising government finance, Labor is able to fund housing apparently for 'free'.

The proliferation of similar bodies at state and federal level reflects a fundamental *asymmetry* produced by changes to budget processes accompanying liberalisation (see: Spies-Butcher and Bryant 2023). The same balance sheet manoeuvres are not available for more traditional forms of public investment. Were the government to simply buy public homes it would appear to be spending billions, funding that disappears through the shell structure of the HAFF. Of course, being structured as a market fund requires investing in market-like entities and paying private fund managers. A similar logic is at play in efforts to encourage super funds to provide affordable housing. Semi-private industry funds investing in semi-private affordable housing is preferable to the fully privatised 'supply' model advocated by market economists (Tulip 2020), but also takes the place of the traditionally public models Labor once advocated.

Revaluing care

The most promising developments within social policy centre on care and work, a theme that has dominated Labor spending commitments since the 1980s. Early in his leadership, Albanese staked out working women as a key Labor constituency (Albanese 2019). The government has since moved to expand access to childcare funding and extended paid parental leave. Both changes are phased in and relatively modest, and both build on existing schemes rather than fundamentally changing their logic. Even so, they help to entrench and universalise expectations around combining work and care. A review of aged care may go further, generating new revenues to fund a higher quality system.

The commitments to better fund the provision of care reflect a consistent counterweight to Labor's more familiar efforts at liberalisation. Throughout the period of neoliberalism, feminists successfully mobilised behind the provision of care, even in the face of increasingly strong fiscal

constraints. Alongside Medicare, spending on families was the largest fiscal commitment to social spending under The Accord during the Hawke-Keating governments. Federal Labor's current commitment to fund higher wages for aged care workers headlined its cost-of-living package in the 2023 budget, while ending the public sector wage cap was key to NSW Labor's platform in the 2023 NSW election and its first budget. Expansion of public funding for care work continues, however, alongside the marketisation of care provision (see: Meagher *et al.* 2022).

Under successive Labor governments increases in funding for services has been accompanied by a revaluation of care work. Unions have built campaigns with parents and carers that span fiscal and industrial strategies. Industrial relations changes under both the Gillard and Albanese governments have made it easier for care workers to win disproportionate pay rises on the basis that the feminisation of care labour has caused its systematic undervaluation (see: Cortis and Meagher 2012). Regulatory changes have mandated minimum qualification and ratio levels for staffing within care services.

Australia has a long tradition of addressing inequalities through wages policies rather than public spending. However, changes to the valuation of care are all the more impressive because this requires a significant fiscal commitment, given that demand for virtually all care remains a function of public funding. When Labor mandates ratios for nurses or facilitates higher wages for care workers, it creates new pressures to fund the state and non-profit providers who employ those workers.

Raising expectations

Although the constraints of liberalisation continue to shape Labor's policy agenda, there are signs of a more ambitious politics emerging, both inside and outside government. Labor has begun to transform budgeting processes, reflecting older strategies that have supported more public forms of provision. These accounting and framing strategies are increasingly backed by organised social interests, built around social reproduction, and a more diverse parliament with the potential to hold those interests together.

Labor's ambitions can be seen in changes to the budget documents used to guide policy and map the future. The political power of fiscal arguments has made these documents far more important, while liberalisation itself

has reshaped public budgeting to reinforce fiscal constraint. Alongside the changes to accrual accounting, which created the incentives to marketise public investment, the Intergenerational Reports (IGRs) created their own asymmetries. IGRs typically model public *spending* while assuming away any change in *taxation*, and focus only on *fiscal* impacts rather than broader *economic* costs and benefits (Spies-Butcher and Stebbing 2019). The most recent IGR includes subtle changes, building on another Labor invention – the Tax Expenditure Statement (TES) – to potentially challenge private welfare.

The TES was first introduced in the 1980s and reflects successful policy accounting reform efforts from the 1970s. The statement identifies and quantifies tax concessions. Because tax concessions involve *not* paying tax, they are largely invisible in traditional public budgets. Yet, concessions create the same fiscal, distributional and incentive effects of similar spending policies. Thus, the TES frames them as tax *expenditures* (Surrey 1973).

Identifying these fiscal 'leaks' has been important to growing social spending. Labor funded Medibank, its original universal health insurance system, by ending tax concessions for private health insurance. The expansion of relatively universal and egalitarian family payments in the 1980s was largely funded by ending concessions for high earning breadwinners with stay-at-home partners (Cass and Brennan 2003). Closing tax concessions was a key demand of the union movement under The Accord, and the TES has since been used by a range of think tanks to fund proposals to expand social spending.

Having been scaled back and renamed under the Coalition, Labor has seen the TES broaden its scope, including more of the concessions within the housing system and detailing the distributional impact as well as the fiscal cost of concessions (Treasury 2023c). Tax concessions have also been incorporated in the IGR for the first time. The latest projections now show that, while public spending on the pension is likely to decline as a proportion of the economy, this fiscal impact is entirely offset by the growth of tax concessions for superannuation (Treasury 2023d: 168-9). The TES reveals that those same concessions are radically inegalitarian (Treasury 2023c: 15-9). Take together, the TES and IGR read as blueprints for new funding efforts in later terms of government.

Both the 2019 election and the previous Henry Tax Review, however, signal caution. It was the organised response of mining capital to the Henry

Review's proposed minerals super profits tax that, more than anything else, destabilised the last Labor government (see: Bell and Hindmoor 2014). Labor's proposals to limit tax concessions in the run-up to the 2019 federal election also saw a fierce scare campaign. In contrast, expanding health and family spending relied on strong support by unions and the women's movement, and involved proposals that more explicitly tied changes in taxation to new social entitlements. Measuring tax expenditures can help answer the fiscal question, but it is the promise of new social rights and the movement alliances fostered by such bold policies that wins political battles.

The women's movement also succeeded in expanding public spending on early education and care by identifying the potential fiscal benefits of expanding provision. Governments, and, perhaps more importantly, Treasuries were convinced that spending on early care paid off through female workforce participation and enhanced human capital formation (see Brennan 199: 197-9). That logic is echoed in another set of financing documents - in the details of the committee charged with considering the appropriate level of government benefits were recommendations to forecast, benchmark, track and model 'savings from the alleviation of disadvantage […] [and] through cost avoidance' (IEIAC 2023: 11).

Social investment

Labor's budgetary focus signals a fiscal strategy. Following the Nordic precedent, social spending is being reimagined as social investment (Hemerijck 2015). Wellbeing budgets promise to broaden how we measure economic success while actuarial models allow governments to identify (and account for) fiscal gains generated by egalitarian social programs. Yet, it remains a strangely econometric conception. It is as much a product of efforts to create new social markets, such as the stalled roll-out of Social Impact Bonds (see: Bryan and Rafferty 2014), as it is a form of social democracy. Even confined to the public sector, natural science models of evaluation risk framing vulnerable communities and citizens as lab rats rather than agents.

Again, the most promising efforts towards a social investment model connect to movement struggles that challenge how we value care and connection. Just as feminist economists have partnered with unions to successfully revalue care labour, First Nations communities are claiming

Indigenous Data Sovereignty to assert control over policy evaluation and public spending (Walter *et al.* 2021). Those strategies partly underpin campaigns for justice reinvestment, supported by state and federal Labor governments, which posits that self-determination will not only lower imprisonment, but also the fiscal costs of incarceration (KPMG 2018).

Towards a new politics?

Successfully raising social policy expectations clearly requires more than innovative accounting models. It needs a real organised politics. Previous policy success points to an emerging politics of welfare. That politics combines industrial and political organising. Revaluing paid care labour sits at its core, advanced by what are now the largest and most powerful trade unions in health, education and care. Those claims advance industrially, through equal pay claims, challenges to wage caps and new industrial laws. But success also reflects political coalitions that unite the interests of workers and service users and centre access to quality care as electoral concerns, especially for women. These electoral coalitions have the power to weaken fiscal constraints and fragment conservative constituencies (Spies-Butcher 2023).

A complementary politics is potentially emerging around other elements of social reproduction: housing and climate. In response to the financialisaton of land and nature, a generational politics has begun to emerge. Renters have been mobilised as a constituency that overlaps those most concerned and impacted by a changing climate. And, while generational accounting may emphasise young people's interests in tax minimisation, recent political campaigns centre their interest in socialising risk, securing rights and expanding public provision.

The composition of the parliament may offer opportunities to coordinate progressive interests and ideas. The pluralisation of representation in the parliament allows for a distinction between the fiscal responsibilities of government and the agenda setting capacities of challenger parties. Labor, the Greens and Teals are also able to tailor messages to somewhat different constituencies, broadening support and fracturing conservative opposition, while cooperating within parliament. There are clearly risks in navigating the competitive tensions between the different parliamentary players, but pluralisation can allow differences to be tolerated without destabilising governance by avoiding Labor's long history of splits.

The housing debate is instructive. Rarely has a progressive government increased spending on the poorest households by $3 billion without a fiscal outcry. Yet, the competitive dynamics that produced this outcome did so without any serious threat to the government's stability. Creating a 'left flank' within parliament can potentially shift the centre of policy gravity. Combining these strategies – organising and mobilising interests to raise expectations, while working cooperatively with the more technical budget strategies of those in charge of state finance – remains some distance from fruition. But there are signs of a more optimistic politics emerging.

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CARE POLICIES

Fiona Macdonald

Labor came to government promising to fix badly broken aged care and disability support systems and set early childhood education and care (ECEC) on a path to being an affordable and universal service. Critical workforce shortages, driven by low pay and poor-quality jobs, plagued all three systems, while a myriad of other problems also demanded system-wide reforms. In the first 18 months the new government made some very significant regulatory changes and substantially increased investment in some crucial areas. Responsible ministers also set in train important policy reviews and reforms that are intended to set directions for the sustainability of Australia's care systems into the future, in a context of rapid and significant growth in demand. However, to date, nothing in the new directions being set by the government suggest there will be any lessening of reliance on the market models for care provision that have enabled Australia's public care systems to become dominated by private providers that wield significant power and frequently operate to undermine the public interest.

Since the 1980s, successive federal governments, both Labor and Liberal-National Coalition, have adopted policies driving increased marketisation of many social services, including aged care, disability support and early childhood education and care (ECEC). While they have had different goals for services, both Labor and Coalition governments have introduced and strengthened the use of market mechanisms as a way of containing public expenditure (Considine 2022; Stebbing and Meagher 2022). There is now plenty of evidence to show that, despite the diversity of services systems and market instruments, these marketised systems are often failing to deliver the innovation, consumer choice and high quality services that were promised (see: Cahill and Toner 2018; Meagher and Goodwin 2015;

Macdonald, F. (2024)
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Meagher *et al.* 2022). Yet, market-based social services provision is entrenched, and the new federal Labor government appears highly unlikely to challenge this.

On coming to office in May 2022, the Albanese Labor government acted quickly to implement recommendations of the final report of the Royal Commission into Aged Care Quality and Safety (the Aged Care Royal Commission) (2021) to address service quality and workforce sustainability problems that had become glaringly apparent during the COVID-19 pandemic. The new government also followed through on their election promise to address the 'childcare affordability crisis' by increasing and extending eligibility for the Child Care Subsidy, a payment that reduces ECEC fees paid by families (Australian Labor Party 2022b). The government's reform narratives and focus shifted fairly quickly from tackling immediate care crises to 'fixing' systems and taking a 'more proactive approach' to develop 'whole-of-system solutions' (Australian Government Strategy 2023: 1). A rhetorical change has seen aged care, veterans' care, disability support and (ECEC) collectively characterised as the 'care and support economy', and as investments in social infrastructure with importance for 'gender equality, socio-economic equality, poverty reduction, inclusive growth and sustainable development' (Australian Government 2023: 2, 9). With the COVID pandemic shining a light on the chronic problems of low pay and insecure work, and the ways in which they contribute to care system failures, there was little determined opposition to Labor's 2022 industrial relations reforms targeted to achieving better pay in care and community services sectors (see: Stanford *et al.* this issue).

Along with reforms to formal care systems, the new Labor government has made some other significant changes that progress the goal of better valuing work and care. Much needed increases in paid parental leave were widely welcomed. However, gender equality advocates, parents' groups and others, including the government's Women's Economic Equality Taskforce, consider the changes do not go far enough and implementation is too slow (see: Jericho *et al.* this issue). The government did listen to the taskforce on some issues and have abolished the punitive Parents Next mutual obligation program imposed on parents. Also, single parents receiving income support can now stay on the higher Parenting Payment until their children turn 14, reversing a Gillard government policy affecting almost a third of sole parents that had been criticised for sending sole parents into poverty (Australian Council of Social Services 2021).

The remainder of this article focuses on Labor's reforms and directions being set in the three formal care systems of ECEC, aged care and disability support through the National Disability Insurance Scheme (NDIS), examining each system in turn in the sections that follow.

Early childhood education and care

The new government's stated policy ambition for 'universal, affordable early childhood education and care' (Chalmers *et al.* 2023: n.p.) is a long way from being realised. While 60% of all 0-5 year-olds in Australia attended childcare in 2022, access is highly inequitable, and there are large divisions in affordability and participation along regional and social-economic lines (Australian Competition and Consumer Commission [ACCC] 2023a).

Persistent problems of availability, affordability and quality of ECEC services have accompanied rapid expansion and marketisation which has enabled an increasing dominance of for-profit providers in place of public and community-based not-for-profits (Hill and Wade 2018). In 2022, Australia ranked 26th out of 32 OECD countries on ECEC affordability (ACCC 2023b: 26). The ACCC reports that, from 2018 to 2022, 'nominal gross fees in Australia increased by 20.6% in comparison to the OECD average of 9.5%', with the rate of increase being faster than inflation, and much faster than wage increases (2023a: 14). Households with the lowest incomes spend a greater share of their income to pay for ECEC, leading them to limit their use of services and their participation in work and study activities (ACCC 2023a: 15).

Oversight of service design and prices in the ECEC market is limited (Hill and Wade 2018). Public funding in the form of fee subsidies is the largest source of ECEC funding but the government's price caps on subsidised fees are ineffective in keeping prices down. Provision of services by private for-profit companies in this sector, as in other social services, was supposed to increase competition by keeping prices down and ensuring greater efficiency, while also providing consumer choice. Yet, large for-profit providers, including national and international chains and publicly listed companies, cluster services in the most affluent locations, while in regionals and low socio-economic areas families' access to ECEC can be very limited. The large for-profit ECEC firms pay higher CEO and executive salaries, employ fewer and less qualified staff, pay fewer of their

staff above-award wages, and provide lower-quality services than not-for-profits and public providers (ACCC 2023a, 2023b; Grudnoff 2022). Provision of ECEC services, like aged care residential services, has become a property or real estate business for some providers with government and service user dollars paying to support providers' capital gains (Considine 2022; Meagher and Baldwin 2022).

Labor's headline election promise for ECEC, was to 'make childcare cheaper' – to be achieved by increasing the Child Care Subsidy (CCS) and extending eligibility to households with incomes up to $530,000 (Australian Labor Party 2022b). Reflecting the political salience of the issue, the Coalition had also come to the election offering substantial increases in childcare subsidies and, while criticising the Labor proposal as 'too expensive' pre-election, ultimately gave their support to the reform (Karp and Remeikas 2023). The subsidy was increased from July 2023 to 90% of the government's capped price of fees. This does not mean the CCS covers 90% of all fees, as providers can charge above the cap and there is a trend towards an increasing number doing so (ACCC 2023a).

Alongside reliance on the market, the policy settings for public subsidies for ECEC fees contribute to inequities in access and affordability through limiting families' eligibility on the basis of an activity test which considers how much paid work, or other approved activities the household undertakes. This has seen families with low incomes and a relatively low entitlement to subsidised hours – mainly families where women are in part-time jobs, including many sole parents – use more unsubsidised hours of care, leading to higher out-of-pocket expenses (ACCC 2023a). Calls for the abolition or simplification of the activity test have been growing since Labor first came into office including from the Labor government's own Women's Economic Equality Taskforce (2023). The activity test fits, in its intent if not in practice, with Labor's long-standing view of the purpose of ECEC as increasing women's labour force participation but it does not support the promotion of a universal ECEC system for children's education and development. The only change the government made to the activity test in 2022 was to provide Aboriginal and Torres Strait Islander families 36 hours of subsidised care to children, not subject to an activity test.

More substantial reforms needed to 'chart a course' for universal, affordable ECEC (Chalmers *et al.* 2023: n.p.) are tasks for the future, with a government-directed Productivity Commission inquiry into ECEC not

scheduled to report back to the government until mid-2024. In the recent past the Productivity Commission (2017) has been an enthusiastic advocate of the ECEC market. However, the current inquiry arrangements suggest a different approach is being sought as the inquiry is being co-led by ECEC expert Professor Emerita Deborah Brennan AM (Chalmers *et al.* 2023) who will bring deep knowledge and a different perspective to the issues. At the government's request, the ACCC is also conducting an inquiry into childcare including costs, pricing, labour, land use and regulatory compliance. Interim findings highlight numerous market failures (ACCC 2023b).

Aged Care

In 2018, the failures of the aged care system attracted enormous public interest when an ABC Four Corners program exposed neglect and abuse of aged care residents and highlighted poor governance and lack of accountability in the system. A day before the ABC program was aired the Prime Minister, Scott Morrison, announced a royal commission into aged care quality and safety would commence at an unspecified time in 2019. Aged care experts and observers did not expect much in the way of new findings to come from the Aged Care Royal Commission. Along with various scandals, there had already been multiple inquiries and reviews into aged care over the previous decade finding serious problems of poor care, including preventable deaths, arising from understaffing, under-spending, poor governance and lack of robust oversight by some aged care residential services providers.

Analyses of aged care policy show how, over decades, policies have driven marketisation in ways that have enabled the development of for-profit providers that now wield considerable power in the sector and to some extent determine what happens across it (Considine 2022; Davidson 2018; Meagher and Baldwin 2022). Assessing the impacts of marketisation, Bob Davidson concludes that, while there have been some positive outcomes, these are almost certainly the result of other factors. Overall impacts are mixed or uncertain in regard to efficiency and to citizens' rights (now reframed as consumer choice). Clearly negative outcomes of marketisation include effects on quality, equity, accessibility, financial burden on users and their families, and an increased focus by providers (including not-for-profits) on commercial objectives (Davidson 2018).

The Aged Care Royal Commission's final report in 2021 identified all of these problems and placed a considerable part of the blame on the failure of the federal government to adequately fund aged care, to take responsibility for strategic governance and to ensure oversight of the aged care system (2021: 46). However, although the Commissioners had suggested in a 2019 interim report that they would explore alternatives to market organisation, the final report did not include any considerations of moving away from the market model (Meagher and Baldwin 2022: 216).

The Coalition government committed to implementing many, but not all, the recommendations of the Aged Care Royal Commission. Prior to the 2022 election they expanded the number of packages for homecare services to address long waiting times and growing demand. The then government also agreed to implement a mandatory minimum daily care time for each aged care resident and a requirement for a proportion of care to be provided by a registered nurse. Meagher and Baldwin consider this to be 'the most significant regulatory fetter on private power' in residential aged care in decades (2022: 254).

The Aged Care Royal Commission's 148 recommendations provided the new government with a reform roadmap of sorts, and Labor's reform agenda closely follows the Royal Commission's recommendations. The new government immediately brought forward the timing of some minimum staffing requirements and embarked on a series of reform processes that include new funding formulas and regulation designed to strengthen standards and provide greater transparency and oversight. A new Aged Care Act that outlines Australians' rights to care is to replace the existing legislation that is concerned with providers and funding mechanisms.

In opposition, Labor committed to fully funding any pay increases that the Fair Work Commission might award to low paid aged care workers in the ongoing Aged Care Work Value case (Australian Labor Party 2022a). However, when a 15% wage increase was awarded by the FWC, the government argued that pay increases should be phased in and take full effect in mid-2024 rather than mid-2023 as proposed by the FWC. The aged care unions and providers joined forces to oppose the phase in and the FWC ordered the full increases to take effect from July 2023.

The big piece of aged care reform that remains uncertain is future funding. The government has established the 'Aged Care Taskforce' to review funding and 'develop options for a system that is fair and equitable for all

Australians' (Australian government 2022a). This has prompted proposals from providers for increased consumer contributions by people who have the means to pay, including through the use of superannuation (Aged and Community Care Providers Association 2023). While a tax increase is reported as being too politically difficult, comments by government ministers and a taskforce communique 'noting the wealth of aged care participants is increasing while the proportion of working-age people is shrinking' are being seen by some as clear signs the government is moving towards greater means-testing and more reliance on user pays (Coorey 2023a, 2023b).

The Aged Care Royal Commission found that a major cause of failings in the aged care system has been a rationing approach to funding that 'has been pursued irrespective of the level of need for care, and without sufficient regard to whether the funding is adequate to deliver high quality and safe care' (2021: 14). Whatever the current government's solution for aged care funding, a continuation of this type of approach will undermine any benefits of other reforms.

The National Disability Insurance Scheme

By the time the NDIS was fully rolled out in 2020, over 500,000 people with disability received support through the scheme established in 2013 by the last Labor government. In 2022 Labor came to office promising to 'defend and fix the NDIS' and to 'restore trust' in the scheme (Albanese with Shorten 2022: n.p.). The rising costs of the NDIS, driven by many more people using the scheme than had been anticipated, were becoming a concern after they surpassed the Productivity Commission's (2017) estimate (Henriques-Gomes 2022). At the same time, disability advocates were reporting cuts to individual support plans, inconsistent decision-making, and enormously bureaucratic and inefficient processes. A proposal for independent assessments of support needs was seen by advocacy groups as a trojan horse for cuts to NDIS support plans, and the initiative was dropped in the face of strong opposition. In the unevenly regulated individual consumer market, there were many accounts of provider fraud, unethical practices, and poor quality supports. In some regional and remote areas, and for some groups of people with disability, markets for supports had failed to materialise (Dickinson 2022; Malbon *et al.* 2019). Problems of poor accountability and lack of market oversight

were evident a few years into the scheme's operation and there were concerns about the National Disability Insurance Agency (NDIA) capability. Questions about the capability of the NDIS Quality and Safety Commission, only established in 2018, emerged later. Lack of clarity about responsibility for aspects of the scheme persisted over time. It was not until 4-5 months after the declaration of the COVID-19 pandemic in March 2020 that the NDIA advised people they could spend their disability support funds on personal protective equipment such as masks and gloves (Macdonald 2022: 76-8, 84).

One of the biggest concerns about the NDIS was that it had become 'the only lifeboat in the ocean' (Shorten 2022). The national scheme was supposed to provide individual supports for people with significant and permanent disability, while a much larger group of people with less severe disabilities were to access support through existing programs and services and through mainstream services that would become more inclusive. However, when the NDIS commenced, many states and territories cut their funding for disability services, and people turned to the new national scheme for assistance.

The appointment of Bill Shorten as Minister for the NDIS in the Albanese Labor government was welcomed by many in the disability community, as Shorten had championed the scheme as parliamentary Secretary for the NDIS at the time of it its creation. Early actions by the government included the removal of a staff cap put in place under the Abbott Coalition government that restricted NDIA staff to 3,000, far fewer than the originally anticipated 11,000. Other reforms to review processes aimed to provide more transparency about decision-making, reduce appeals to the Administrative Appeals Tribunal and reduce waste, including by reducing government spending on consultants and on lawyers to fight NDIS participants' appeals.

In late 2022 the government announced there would be an independent review of the NDIS to be co-chaired by Bruce Bonyhady, widely regarded as the father of the scheme, and Lisa Paul, a former senior public servant (Shorten 2022). The review was to examine the design, operations and sustainability of the NDIS and ways to build a more responsive, supportive, sustainable market and workforce (Australian Government 2022b). In April 2023, Minister Shorten flagged the need for 'systemic reform' of the system (Shorten 2023).

With the NDIS review final report still under consideration by the government, the detail of reforms is yet to come. However, all indications are that there will be some tightening of NDIS spending. Currently, most of the targets for spending cuts are likely to be palatable to NDIS participants and their families, as they are waste, unethical practices, fraud, and cost-shifting from other areas such as health and education. Possible reforms that will be viewed less favourably are limits on individual plans and any tightening of eligibility, both of which appear to be under consideration (see: Shorten 2023).

Reports of appalling treatment of vulnerable people continue to come to light and bring into question the capability of the NDIS quality and safety regulator and the market design of the NDIS. The current NDIS review processes will no doubt see some strengthening of system oversight and market stewardship but how effective the reforms will be in preventing the recurrence of manipulation of the individual consumer funding arrangements for the maximisation of profit at the expense of people dependent on the NDIS, the support workforce and the broader public remains to be seen.

Conclusion

Free-market ideologies have played a big role in the development and restructuring of Australia's systems for the provision of formal care and support over recent decades, under both Labor and Coalition governments. To differing extents, organised as consumer markets, the resulting care systems have enabled the funnelling of public subsidies meant for care into the creation of wealth for private providers. Most consumers in Australia's care markets have had little power and very limited choice. In the immediate past decade, successive federal Coalition governments have determinedly refused to re-design or regulate systems to stop rent-seeking and other behaviours by providers that undermine equity, affordability and quality of care. Elected in the immediate post-pandemic period, the new Labor government has had little problem convincing the Australian people of the need for major reform. Immediate policy responses are intended to address some of the most glaring problems in ECEC, aged care and the NDIS. The harder tasks will be ensuring adequate and secure funding in the face of growing demands, and building and maintaining universal,

equitable and affordable systems of good quality care in markets dominated by private providers that have their own goals.

While many of the Albanese government's care policy reforms are directed to addressing market failures, the policy ambition is limited to providing 'good market stewardship' (Australian Government 2023: 45). Perhaps this stewardship will ensure markets can and do deliver quality care services equitably and efficiently. However, this seems optimistic given past endeavours have generally failed in the face of reliance on private providers who have significant power and have been able to exercise this power to resist changes that are disadvantageous to them.

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HEALTH POLICY

Arthur Chesterfield-Evans

Just before the 2022 federal election, Mark Butler, now the Minister for Health in the Albanese government, spoke to the National Press Club, praising the courage of the Hawke government in creating Medicare in 1984. His speech also set modest priorities for a prospective Labor government, committing to (1) improve the digital health record and make the MyHealth record actually useful; (2) develop multidisciplinary care; (3) establish a new funding model for 'MyMedicare'; and (4) grow the medical workforce, with special mention of nurses and pharmacists (Butler 2022). Significantly, Butler did not commit afresh to Medicare as a universal health scheme *free at the point of delivery,* the key element of the original 1984 scheme that he praised. In an environment where, politically, it seems that taxes cannot be increased, perhaps this ideal may be an impossibility, but it is surely significant that it is no longer stated as an aspiration.

Currently, Medicare is quietly dying as the low rebates cause doctors to abandon it. Australia is moving to a US-type private system by default. This has resulted in large amounts of hand-wringing rhetoric, but so far little action. This short article comments on the changes initiated by the current Labor government during its first year and a half, contrasting these with the deep-seated problems needing to be addressed if better health outcomes are to be achieved.

Labor's reforms

The government has made some minor changes to Medicare which came in with great fanfare on November 1, 2023. There were new item numbers

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for new specialist technologies or treatments and an increased Medicare rebate for GPs, up to $41.40 for a standard visit for a RACGP member, which is 40.6% of the AMA fee. Doctors without the RACGP qualification still get $21, which is 20.6% of the $102 AMA fee.

When Medicare was born, the Medicare rebate was 85% of the AMA fee. The rebate has risen at half the inflation rate for 39 years, so doctors now feel ripped off every time they see a Medicare patient. Labor blames the disparity on the rebate freezes of the previous LNP Coalition governments, but its own record is poor. Successive governments of all types have deferred to the private health lobby and are starving Medicare, slowly defaulting towards a principally private system, as in the USA. This is a deeply-troubling prospect because the US health system has been recurrently criticised (Commonwealth Fund 2021) – and rightly so – because it makes access to health care dependent on ability to pay. Notably, however, it is the world's best system at turning sickness into money.

The other recent Labor 'reform' was to allow pharmacists to process prescribed medications to cover patients' requirements for 60 days, rather than 30 days, thereby halving the costs of prescribing and dispensing. While this may seem helpful, patients are often confused by complicated generic names and generic brands; and compliance or discontinuation of medicines is a largely unquantified problem. These are existing problems with the current arrangements for dispensing medications: the recent policy change, while well-intentioned, does not redress them. It transfers resources from professional staff to the pharmaceutical industry.

The 'Strengthening Medicare Taskforce' had good medical and allied health representatives and support. Its December 2022 report defined the problems but, trying to avoid controversy, positive suggestions were thin on the ground. A deeper analysis and more comprehensive approach to the redress of health issues is needed.

Basic problems in the health system

Diverse funding sources causes cost-shifting

Fundamentally, no-one is in overall control of the health system. It has a number of different funding sources: the Federal and State governments, the Private Health Insurance industry (PHI), Medicare and individuals

themselves. Workers Compensation (WC) and Compulsory Third Party (CTP) insurers also put in a bit. These arrangements lead to a situation where each funding entity attempts to shift costs without any real care for the overall cost of the system. Private entities such as pathology and radiology also have an interest in providing more services, whether they are needed or not.

The broad division of the health system is that public hospitals and emergency departments (EDs) are State-funded, and non-hospital services are Federally, PHI or self (patient) funded. There is some overlap, however, because the State's provision of some community-based services allows them to save on hospital-bed days; and private funds paid to State hospital in-patients are eagerly sought. The starvation of Medicare (which reduces the Federal government's spending) has resulted in more patients going to EDs at higher (State) cost, as well as increasing PHI and patient costs.

This cost-shifting has evident implications for the affordability of health care: notably, a recent study showed that Australia, when compared to 10 other countries, scored poorly on its measure of affordability (Commonwealth Fund 2021).

A new health paradigm is needed

Yet more fundamentally, there is a huge problem with the conceptual model of the health system. In common parlance, the 'health system' is the 'paying to treat illness' system. Paying doctors to see and treat patients is seen as the major cost and is the most politically fraught element in the system.

Historically, everyone was assumed to be healthy and had episodes of either infectious diseases or surgical problems. They went into a hospital for a brief period and either recovered or died. The legacy of this is that heroic interventions are over-resourced and the more cost-effective early interventions are under-resourced.

Infectious disease is now relatively uncommon, notwithstanding the recent and ongoing coronavirus concerns. Most disease is chronic; and the objective is to maintain health for as long as possible and to support those who need support in the community rather than in institutions. 'Health' must be re-defined as a state of physical and mental wellbeing; and maintaining it as 'demand management' for the treatment system.

Life-style diseases of diet, obesity, smoking, vaping, alcohol, drug-use and lack of exercise need attention. It might be commented that these habits are more determined by the political economy of the products than by any health considerations; and the government should intervene to re-balance this market failure.

Hierarchies, cartels and corporatisation

The medical system is hierarchical with specialists at the top and GPs at the bottom. The specialist colleges have produced less practitioners than would have been optimal. The starvation of General Practice has led to increasing specialist referrals for simple procedures. Most patients are happy to go along with this, though often much less happy about the rising costs. Practitioners tend to work down to their station rather than up to their capacity. GPs, if given the appropriate additional education and empowered to act, could do what quite a lot of specialists do now, while nurses could take the load from GPs; and, in terms of home support, a more comprehensive and flexible workforce needs to be developed.

Private medical insurance systems are a further source of problems. They have marketing, churn, profits, liability and fraud issues; and they make it necessary to account for every item of every procedure. While the corporations watch every cost, the regulator cannot. Corporations buy medical practices and take up to 55% of the gross revenue. Smaller radiology practices are being gobbled up as investments (Cranston 2020). If overheads are defined as the amount of money put in compared to the amount paid for treatments, Medicare costs about 5% and PHIs, as they are regulated in Australia, about 12%. In the USA, the private health funds take up to 35%, and Australia's CTP system got close to 50%. A universal health insurance system could avoid many of these costs and would be far superior from a social equity point of view.

Similar problems are evident in the provision of care for people with disabilities. Labor pioneered the NDIS when last in office a decade ago, and rightly claims this as evidence of its commitment to redress the previous neglect. However, the NDIS can be considered as a privatisation of the welfare system. It overlaps medical system functions and is poorly regulated. If its efficiency is judged by the percentage of money put in that is paid to the actual workers delivering the service, care is not very

efficient. There have also been significant criminal rip-offs (Galloway 2023).

Retirement care arrangements have major flaws too. Aged-care accommodation is largely driven by the real estate industry; and access to continuing care is an add-on of often dubious quality.

What should the government do?

The problems described above are diverse, deep-seated and not easily rectified. However, a government intent on staying in office for a series of terms could heed the call for some big thinking, drawing on the experience of health practitioners themselves. Here is a list of what might be done, becoming more medical and more politically difficult as it progresses:

- Keep people healthy with education, clean water, sanitation, housing, good food, regular exercise, high vaccination rates, road safety, universal swimming lessons, CPR and first aid training and the active discouragement of smoking, vaping, alcohol and drug use, junk food and gambling.
- Provide housing with graded community support options for those people with disadvantage or impairment. Create a registration and insurance system for home and community support services, so that individuals can buy standardised services from other individuals.
- Maintain fixed staff-patient ratios related to the disability classification of residents in institutional care.
- Make maximum use of community and school interventions and support services such as District and Community nurses and School nurses, mental health support networks, Aged Care Assessment Teams, Hospitals in the Home etc.
- Address health problems as early and as low down the support and treatment hierarchy as possible, by empowering those who provide the services.
- Create a meaningful regulatory, inspection and enforcement system for support services, both community and residential, and for workplaces and recreational facilities.
- Use the medical information system to research drug and treatment effectiveness.

- Support General Practitioners and try to increase their ability to solve problems without referral. Have GPs work in Health Centres with community support workers as far as possible; and improve communication with data collection a by-product of normal work, not an additional imposition.
- Have independent evaluation of the numbers needed in the specialties and pressure the colleges to provide these numbers. Use waiting times as an initial index.
- Initiate either university-based or college-based continuing medical or professional education, with mandatory refresher exams every decade.
- Have universal professional indemnity insurance, with doctors and other health professionals unable to be sued if they report all incidents of sub-optimal outcomes within 48 hours of becoming aware of them, and participate in regular quality control meetings.
- Publicise and promote organ donation, end of life plans, wills and enduring powers of attorney as sensible steps in life-management.
- Evaluate Intensive Care interventions in QALY (Quality-Adjusted Life Years) terms, researching their outcomes and comparing them to earlier intervention initiatives.
- Change the composition of the Pharmaceutical Benefits Advisory Committee so that it has no pharmaceutical industry representative on it; and remove ministerial discretion from its decisions. The previous system evaluated new drug listing approvals with a cost-benefit analysis (Doran *et al.* 2008), but the Howard reforms of 2007, following the Australia-US Free Trade Agreement and lobbying by Pfizer, put a drug industry representative on this committee, making its negotiations more transparent and thus more difficult for the PBS to negotiate prices (Access to Medicine Working Group 2007).
- Work towards replacing Workers Compensation and CTP insurance schemes with income guarantee schemes (this will only be possible when Medicare allows timely treatment).
- Create a credible and indexed scheme for paying medical professionals which does not have KPIs that distort performance.

- Make Medicare a universal taxpayer funded health system that is free at the point of delivery and stop subsidising PHI. It might be noted that the Government currently quotes Medicare and PHI costs together as a sum rather than itemising the two, which serves to disguise the subsidy to PHI (Parliament of Australia 2022).

Conclusion

The current federal Labor government has made statements about health policy reform and done minor tinkering during the first year and a half in office. Based on this start, it is doubtful that it will have the courage to make the necessary major changes, addressing the systemic problems. Fine rhetoric is unlikely to achieve much. That makes it doubly important to develop proposals for more fundamental reform. Written with this intention, the suggestions made in this article could be the basis for tackling the fundamental institutional and political economic issues problems associated with personal and societal ill-health.

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SCHOOLS POLICY

Dean Ashenden

The foundations of Labor's policy on schools were laid almost exactly half a century ago when the Whitlam government and its 'Karmel' report (Interim Committee 1973) set up 'the system' as we now know it: generous 'state aid' for non-government schools (provided by both state and federal governments); 'national leadership' by the Commonwealth on the back of its substantial funding; two levels of government involved in each of three sectors in all six states (and now two territories); and the whole in nominal pursuit of high-minded national objectives including particularly equality of group outcomes and equal opportunity for all.

All this was accepted by the Hawke/Keating governments and its ministers Susan Ryan and then John Dawkins. The Rudd/Gillard governments liked to talk about their education 'revolution' which, for Gillard, meant a revolution in schooling. It turned out to be a ricketty edifice constructed on the Karmel foundations: national as well as international standardised testing of 'the basics'; a new national website (MySchool) to deliver 'transparency' and 'accountability'; two new institutions (ACARA and AITSL)[1]; the new device of National School Reform Agreements (NSRAs); various 'initiatives' to lift 'effectiveness' and 'teacher quality'; a plan for 'needs-based' funding ('Gonski'); and a new vocabulary of 'outcomes', 'accountability', 'performance' and the like.[2]

The Albanese government and its education minister Jason Clare have shown no sign of wanting to depart from either Karmel or Gillard. Moving

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[1] Australian Curriculum, Assessment and Reporting Authority; Australian Institute for Teaching and School Leadership

[2] For an excellent account of the 'revolution', see: Savage (2021).

Ashenden, D. (2024)
'Schools Policy'
Journal of Australian Political Economy
No. 92, pp. 106-12.

cautiously, Clare has taken the sector system and the Commonwealth role as givens, all but promised implemention of 'Gonski', postponed NSRA negotiations so that an 'expert' group could to 'zero in' on 'real and measurable improvements' for the disadvantaged particularly (Clare 2023) and fended off issues of the day with a scatter of grants and programs.

Clare's early political weather is markedly more difficult than Gillard's, however. Gillard could promise the earth (famously, that Australia would be in the OECD top 5 by 2025) and get away with it, for a while at least. Clare has to cope with the fact that Gillard's 'revolution' was an unrelieved failure in every part and in the whole. By the revolution's own measures – outcomes, teacher pay and morale, teacher quality and standards of entry to the profession, equality (however defined), social inclusion and cohesion – Australia's schooling was going backwards when Labor came into office in 2007, was still going backwards when it left in 2013, and has continued to go backwards ever since.[3]

The critics

Labor's schooling policies have had their critics ever since Whitlam's glory days – witness, for example, Simon Marginson's analysis of 'the Karmel settlement' in this journal (Marginson 1984), and the even more telling indictment issued in 1991 by Karmel's principal author, Jean Blackburn:

> We created a situation unique in the democractic world [and] it is very important to realise this. There were no rules about student selection and exclusion, no fee limitations, no shared governance, no public education accountability, no common curriculum requirements below upper secondary. We have now become a kind of wonder at which people [in other countries] gape. The reaction is always, 'What an extraordinary situation' (Greenwell and Bonnor 2022:14).

The critics have had little impact on policy until now, but the failure of the Gillard revolution - plus a Labor government apparently set to do it all again – has seen the critics grow in number and vehemence. At a recent symposium on 'funding, equity and achievement', speakers competed to document the most egregious of the many failures of the Gillard years.

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[3] For a summary of the evidence, see: Thomson (2021).

Tribal elders have been particularly severe. Prominent veterans Brian Caldwell and Alan Reid (both former deans of education) say that 'Australian schools have hit the wall' (Caldwell 2023) and need 'a major overhaul' (see also Reid 2019). A former minister for education in NSW, Verity Firth, wants to ditch more of the same in favour of 'structural' reform. Her Western Australian counterpart (and former Premier and Gonski panel member) Carmen Lawrence rages against the long tail of underachievement, rising segregation, pathetically narrow performance measures, the failure of new school planning, 'deeply disturbing' inequities and 'huge' differences in resourcing and opportunity. Barry McGaw, former CEO of Australia's premier education research agency the ACER (Australian Council for Educational Research) and former head of education at the OECD, famously careful in his pronouncements, says bluntly that quality is declining, inequity is high, and the system 'resistant to reform'.[4] Geoff Masters, McGaw's successor at the ACER, says that 'deep reforms' are 'urgently required' (Masters 2023).

Dissent is finding its way inside the tent. The 'expert group' asked to zero in on real and measurable improvements includes some who are deeply committed to that kind of language and approach and some who are not. Stephen Lamb, for example, led a major research project that found the school system failing on a much wider front than just outcomes in the basics (Lamb et al 2020). Another member is Pasi Sahlberg, the (Finnish) author of *Finnish Lessons* (Sahlberg 2011), who has been a long-standing and trenchant critic of what he labels GERM (Global Education Reform Movement), exactly the kind of thing Clare seems to endorse.

The critics have so far been more convincing in documenting failure than in understanding where it came from and what might be the implications for the future. Most explanations centre on specific policies pursued (or not pursued) and/or the simple wrong-headedness of governments and 'policy-makers'.[5] A more promising approach is in structural analysis, and specifically in understanding how successive federal Labor governments have elaborated and helped to entrench three structures that dominate

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[4] Firth, Lawrence and McGaw all spoke at a public forum following the 'Funding, Equity and Excellence' symposium convened by the Melbourne Graduate School of Education in April of this year. See: *https://go.unimelb.edu.au/2oes.*

[5] Exceptions include Savage (2021) and Greenwell and Bonnor (2022).

Australian schooling: the organisation of the industry as 'sectors'; the organisation of work and workplaces; and the organisation of governance.[6]

Labor and the structures of schooling

On the first of these, the organisation of the industry, Karmel devised the terms on which each sector would operate with its own clienteles, funding, regulation, governance and ethos, with consequences as pointed out by Jean Blackburn. Karmel also accepted the then-dominant (and still dominant) organisation of student and teacher work as a competition for places in a giant rank order. Indeed, Karmel provided that 'grammar' of schooling (Tyack and Tobin 1994) with the legitimating rationale of 'equality of outcomes'. And third, Karmel endorsed and systematised the role of the Commonwealth in schooling, giving Australia the unique combination of two levels of government closely involved in each of the three sectors in all eight states and territories. These various elements of the Karmel settlement had been taken as givens by the Hawke and the Rudd/Gillard governments, as was noted above.

Of course, Labor could point to the circumstances it had to grapple with. Neither Whitlam nor Karmel invented the sector system; that was a legacy of the ferocious sectarianism of the 19th century Anglo-Protestant majority and its so-called 'free, compulsory and secular' assault on the even more sectarian Irish Catholic minority. Nor did Karmel make the States consitutionally responsible for schooling and then deprive them of enough money to deliver; that was the doing first of the federation's founders and then of wartime taxation arrangements forced on the Curtin government in 1942 by the second world war. Much the same could be said of the organisation of work and the workplace, a grammar of schooling installed by the new departments of education in the late 19th and early 20th centuries, well-suited to basic schooling for all plus secondary schooling for a selected few, but wholly unsuited to extended secondary schooling for all, the problem as it became in the wake of schooling's tumultuous expansion from the early 1950s.

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[6] This argument is elaborated in Ashenden (forthcoming).

On the other hand, it is also true that in none of these cases did Labor have a response of its own to circumstances given by history. When the Catholic system was on the point of collapse in the early 1960s the European answer – incorporation within a more generously defined public system – could have been Labor's answer too but it wasn't. Instead, it was the Church that thought the unthinkable, joining with the class, religious and ethnic enemy to ensure the survival of the sector system and thereby win an historic victory for Catholic schooling and an historic reversal for the secular public system. So too on the grammar of schooling, an interlocking arrangement of daily work and system-level regulation (industrial regulation particularly) and agencies. Karmel knew that this approach did not and could not work for mass secondary schooling but offered only 'innovation' and the injunction to 'let a hundred flowers bloom' (Interim Committee 1973: para 2.11) rather than a coherent alternative. And on governance, Whitlam was well-aware that entrenching the Commonwealth in schooling would complicate an already incompetent system but hoped that a new statutory authority (the Schools Commission) would sort it out. In practice, the Commission was yet another complication in both Canberra (where it was engaged in chronic turf warfare with the pre-existing Department of Education) and in each of the States, where its activities were resisted by the local departments and blurred responsibilities and accountabilities; by the mid-1980s it was gone. With the exception of the Gonski proposals – which Labor failed to implement – the Rudd/Gillard 'revolution' was not of Labor's own devising. It was an off-the-shelf package – Sahlberg's GERM – previously installed in school systems around the world, most recently by the Blair 'New Labour' governments in the UK.

Both the Rudd/Gillard and Whitlam governments must be credited with seeing that the problems of schooling were problems of the system as a whole to be tackled by reforms reaching across the whole. The choice of means, however, was limited by Labor's alliance with imperial Canberra and its relatively superficial understanding of what made the system tick. The Gonski exception proves the rule; it was grounded in a sociology of social and cultural power rather than in the search for a more equal distribution of success (Teese 2011; Keating *et al.* 2011; Nous Group 2011). But Gonski has its own limitations; it is focused on funding to the exclusion of regulation – rules about choice by parents and selection of

students by schools that encourage two sectors to feed off the third[7] – and it accepted that one in three of Australia's schools should be governed by essentially private entities. Even on funding Gonski was modest, to say the least.

Structural reform?

It would be open to the Albanese government to treat the reinstatement of Gonski as a first rather than the last step in the reform of the sector system, to be followed up by measures tackling regulation and governance as well as pushing on with funding reform. That could in turn suggest how incremental reforms can be *structural* if conducted within a larger, long-term plan that includes fixing a dysfunctional system of governance and the failure-generating grammar of schooling. Such things have yet to be dreamed of in Labor's philosophy. It is possible that a growing disillusionment with the path set by Gillard will fuel a larger and more politically capable way of thinking about what schooling can and should be. That might in turn be put at the disposal of the organised teaching workforce to support a top-down-bottom-up movement of the kind glimpsed in the 'I give a Gonski' campaign. That is a big ask; on present indications it is possible but unlikely.

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[7] Some government schools have been encouraged in turn to feed off others via the real estate market and/or various under-the-table devices. One recent Victorian survey found that four in ten government school enrolments were 'out of zone'.

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INFRASTRUCTURE POLICY

Lee Ridge

Government infrastructure provision is much more important than its conception in mainstream economic theory as a response to 'market failure'. In practice, it draws on the state's capacity to fund investment in large projects and bear the associated risks. Investing in infrastructure can also be an engine for accelerating economic growth, meeting community needs and serving diverse societal goals such as equity and sustainability. These broader considerations create an expectation for it to feature particularly prominently in any Labor government's program.

It is also pertinent to note that, before Labor's 2022 federal election win, Prime Minister Anthony Albanese had considerable experience with infrastructure policy development and implementation. In 2007, Albanese was appointed the first federal infrastructure minister and oversaw the creation of Infrastructure Australia to be the nation's 'independent infrastructure advisor'. Few would doubt his personal inclination towards making this a prominent feature in government policy.

This short article examines Labor's infrastructure policy and achievements during its first year and half of government. It starts with discussion of the infrastructure projects currently being funded; and then shifts to consideration of three 'mega' projects - the National Broadband Network (NBN), the Inland Rail, and Snowy 2.0. In this way, it seeks to highlight the current challenges and some possible paths to progress.

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Labor’s infrastructure spending

Among Labor's policy announcements before the 2022 federal election, there was no stand-alone 'Infrastructure policy’ or new 'nation-building projects' – nothing like President Biden's trillion-dollar *Building a Better America*. However, after its electoral success, the new government’s first annual budget signalled the intention to ‘deliver real nation building through a genuine review of Australia's infrastructure investment pipeline and bold new measures for Australia's cities and suburbs’ (King 2023).

Under Australia's federal system, the Commonwealth government, through the Department for Infrastructure, provides funding to the state governments for infrastructure projects via the Infrastructure Investment Program (IIP). Labor has continued the previous government's funding program, which is a 10-year program with total funding of $120 billion (King 2023). This funding is highly skewed to roads: the 2023-24 federal Budget has allocated approximately 70% of the funding for roads, 24% to rail transport, 3% to Cities and 2% to a directly funded Commonwealth project, the National Water Grid Fund (Commonwealth of Australia 2023: 59-60). Labor also initiated an independent inquiry into the IIP: although the report is not publicly available at the time of writing this article, the press has reported that the inquiry ‘found a $33 billion blowout’ in the current work pipeline (Mizen 2023). This 'blowout' was attributed to hundreds of smaller projects initiated by the previous government. As a result of these findings, Labor's infrastructure policy can be sensibly considered as a 'work in progress'.

However, there is also necessarily an element of continuity because Labor's major infrastructure tasks include three 'mega' 'nation-building projects' that were already in various stages of development, completion (or non-completion), and funding. These mega projects need to be examined using a political economy approach that includes posing the question of 'who wins and who loses'.

The National Broadband Network (NBN)

The NBN is Australia's largest infrastructure project; and it is wholly owned by Commonwealth Government. It began as a key policy initiative of the Rudd Labor government and commenced construction in 2010. Labor’s original goal was to provide fast broadband using optical fibre

technologies, known as fibre-to-the-home (FTTH), to more than 90% of Australian households. It was originally intended that the network would be completed by 2018, at a cost of $43 billion, of which $21 billion would be provided by the governement and the balance from private sources. Labor’s NBN strategy was to build a fast, advanced network that would be financially self-sustainable.

The Liberal-National Party (LNP) coalition elected in 2013 changed the NBN's strategy to one termed a 'muti-technology-mix' (MTM), using existing communications infrastructure, predominantly owned by Telstra and Optus, supplemented with slower and less expensive, non-optical technologies. This type of connection is known as fibre-to-the-node (FTTN). The LNP planned to finish the rollout by 2019, with 12.7 million premises connected at less cost than Labor's NBN.

NBN’s 2023 Annual Report (2023: 4) states that 8.56 million homes and businesses have been connected, with most of these connections being the slower FTTN. The NBN is now in the process of replacing these FTTN connections with FTTH connections, which has significantly added to the cost of the project. Although not highlighted sufficiently at the time, Labor's and the LNP's technology strategies were not comparable: Labor's FTTH network can be regarded as equivalent to a racing car, while the LNP’s FTTN is a VW Beetle.

According to the NBN Annual Report (2023: 4), NBN users obtained an average speed of 66.13 Megabits per second (Mbps). This speed is far more than the 13 Mbps that would be required by 2023, as estimated by the NBN Cost Benefit Analysis in 2013, which provided the economic rationale and political legitimacy for the FTTN strategy (Department of Communications and the Arts 2014: 34) . Despite this significant increase in internet speed, the rest of the world has proceeded to implement fast fibre-based networks: The Ookla Speed Test (2023) currently ranks Australia 88th internationally in terms of fixed line speed.

Labor's NBN 2022 election policy (‘Fixing the NBN’) promised to provide for an additional 1.5 million FTTH connections, costing $2.4 billion over four years (Australian Labor Party 2022). The first instalment of this funding was provided to the NBN in June 2023. Interestingly, this level of expenditure for digital infrastructure now passes with little adverse comment from business, in sharp contrast to when the NBN was first announced. The NBN is now seen across-the-board as an essential digital

infrastructure, particularly since the onset of COVID, enabling working from home for millions of workers to keep businesses operating.

After 13 years of construction, according to NBN's financial statements from 2010 to 2023 inclusive, the project's cost exceeds $81 billion (excluding debt repayments) and is a *net* $54 billion after cash receipts from customers.[1] These additional costs borne by the government are evidence of the massive transfer of wealth from the state to business, particularly to Telstra and Optus for access to their existing 'end of life' infrastructure, as well as those business contractors providing components, cables and services. The result has clearly been a 'win' for business and a 'loss' for taxpayers.

The Inland Rail (IR) project

This project has been discussed by governments since 2006 and was eventually initiated by the LNP Government in 2015. The IR's aim is to provide a 24-hour journey time between Melbourne and Brisbane, competing with the travel time for road transport, to reduce reliance on road freight. The IR consists of constructing new track in combination with upgrading existing parts of the network, as well as several inter-nodal terminals. An extension of the line from Brisbane to the Port of Gladstone was also proposed to facilitate coal exports. The IR Business Case prepared by PricewaterhouseCoopers (2015: 154) estimated the total cost to be between $9.9 billion and $10.7 billion.

The project is both significantly behind construction schedule (four years) and over budget. In October 2022, the current Labor government initiated a review of the project, conducted by Dr Kerry Schott (Schott 2023). Her review concluded that the project was poorly governed by the responsible government body, the Australian Rail Track Corporation Limited (ARTC), which is also wholly owned by the Commonwealth Government. Further, in a damning finding, Schott (2023: 23) found that the board appointments by LNP ministers lacked the expertise required by this organisation. The press more openly reported these appointments by LNP Ministers as 'captain's picks' (Hope 2023). Labor has subsequently appointed a new

[1] Calculation produced by the author from NBN Co. Limited Annual Report for 2010 to 2023, inclusive.

Chair of the Board (after the retirement of Warren Truss, former federal National Party Leader) and replaced several ARTC's directors.

The Schott review (2023: 6) could not determine a completion date, but the estimated cost (provided pivately 'without confidence') has apparently increased to $31 billion, which is almost double the previous estimate of $16.4 billion in 2021.

The Labor government has committed to completing the IR and has appointed a new CEO and Board members to ARTC. As in the case of the NBN, completing this project will entail a massive transfer of wealth from the state and taxpayers to business and landowners. Further, this project highlights the need for more effective expertise, governance and accountability.

Snowy 2.0

Snowy 2.0 was initiated in 2016 by then Prime Minister Malcolm Turnbull as a 'nation-building project' and is also wholly owned by the Commonwealth Government. The project's goal is to 'future-proof the National Electricity Market (NEM), helping stabilise the system and deliver lower prices' (Turnbull 2017).

This complex project is an expansion of the existing Snowy Hydro scheme, using pumped hydro technology which involves pumping water uphill between Tantangara and Talbingo dams, with the capacity to generate electricity on demand by pumping the water downhill through 27 km of tunnels. The electricity generated will be supplied to the east coast of Australia.

The project started in 2017, with a target completion date of 2024. Snowy Hydro (2017) made an initial cost estimate that has been stated at $2 billion (although the Cost Estimate and Business Modelling reports, respectively, are not publicly available). The construction cost (not total costs) was revised in 2019 by Snowy Hydro (2019: 15) to between $3.8 billion to $4.5 billion, and this has now been revised by Snowy Hydro (2023: 11) to more than $12 billion with a completion date and the end of 2028. This cost estimate does not include the cost of transmission lines from the generator to end users.

Currently, tunnel drilling has stopped and has been for 19 months, as the drill boring machine is stuck in soft ground. Labor Ministers Chris Bowen

and Katy Gallagher (2023) advised that this stoppage is due to ‘site conditions and geology’ being the result of a less than extensive geological review of the proposed tunnels. This project is yet another example of poor governance, with the state and, ultimately, taxpayers bearing the risk of this significant transfer of wealth to business.

Conclusion

From this brief examination, we can see that the Labor government is in the process of rationalising the three mega projects that it inherited from the outgoing Coalition government. Examination of these projects that Labor will continue to fund reveals structural deficiencies in political decision-making, management and governance that have resulted in massive transfers of wealth from the state to business interests. Now that the Labor government has taken the first steps in reviewing these projects and replacing some of these companies’ directors, the key question is whether it be up to fixing these structural issues.

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TRADE POLICY

Patricia Ranald

Trade policies reflect prevailing theories about the benefits of trade, the economic interests involved, global strategic tensions and the ambitions of the government of the day. This article considers these factors in relation to the approach to trade policy that the current Labor government is taking. Its first part considers the long-standing neoliberal framework that has shaped beliefs and policies relating to international trade. It then notes the disruptive effects of three key global trends that materially challenge aspects of this framework. It goes on to consider the national public debates on Labor trade policy leading up to and since the 2022 election. Finally, it discusses the implementation of the policy in its first year and the ongoing parliamentary inquiry into trade policy.

The neoliberal approach

Neoliberal trade theory has provided the framework for Australian trade policy over the last 30 years. It posits that economic welfare is maximised through each country specialising in its most competitive products for export, importing everything else at the lowest globally competitive prices through globalised supply chains, with zero tariffs, minimal other government regulation and no local industry development policies. This framework is the basis of global multilateral trade agreements in the World Trade Organisation (WTO), formed in 1995 after the collapse of the Soviet economic block, and expanded as China, Russia and others joined the WTO in subsequent decades. Similar principles have underpinned bilateral and regional trade agreements mostly initiated by global North countries not satisfied with the pace of tariff reductions and other forms of regulation

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through the WTO, although multilateral purists question whether these preferential agreements maximise national and global efficiency (Armstrong 2015). All of these agreements are enforced through state-to-state dispute processes backed by trade sanctions.

Critics of neoliberal trade theory have exposed its internal inconsistencies (Dunkley 2004: 18-62; Stanford 2015: 304-11) and its inequitable impacts as former colonial countries were denied the tools for local industry development that had been available to the colonisers (Chang 2002; Stiglitz and Charlton 2005). The application of this theory enabled globalised investment and maximised low-cost global production chains for international corporations; but ignored the environmental impacts of ever-expanding global production and the impact of global competition for the lowest possible production costs on human rights and labour rights standards, often resulting in a race to the bottom on these standards (Ranald 2017). At the same time, powerful industries located in global Northern countries have successfully lobbied to include in some agreements elements that are inconsistent with neoliberal principles, like longer monopolies on medicines and special rights for foreign investors to claim compensation for changes in government policy. These and other attempts to restrict government health, environment and other public interest regulation as barriers to trade and investment have also attracted critics, as has the refusal to release the text of trade agreements until after they are signed (Stiglitz 2015; Ranald 2021).

Global pressures on neoliberal trade frameworks

During the last three decades, successive Australian governments have been among the most consistent practitioners of neoliberal principles. However, this bipartisan practice in Australia and elsewhere has been challenged by three recent major global developments.

Firstly, the growing climate crisis has required both global cooperation and national government regulation to reduce carbon emissions and develop low carbon industries. Following scientific evidence, public pressure and support from those sections of capital that perceive global warming as a threat to their interests, the EU and UK are now including in trade agreements commitments to lower carbon emissions policies which require national regulation to develop clean energy and other low emissions industries. Examples are the recent Australia-UK Free Trade

Agreement and the New Zealand-EU Free Trade Agreement (DFAT 2022a: Articles 22.5 and 22.7; New Zealand Ministry of Foreign Affairs and Trade 2022: 396). While their effectiveness has yet to be tested, the inclusion of such commitments departs from strict neoliberal principles.

Some supporters of current trade rules concede that interventionist industry policies like the US Inflation Reduction Act and the European Green Deal Industrial Plan, and the European Carbon Border Adjustment Mechanism are needed to retain domestic political support for achieving ambitious carbon reduction goals, but they require a mix of subsidies, tariffs, and regulations that current trade rules 'would heavily discourage if not outright disallow.' They conclude that the WTO 'must create room for carbon tariffs, limited green sourcing provisions, and similar policy agendas [...] The WTO could recognise that spending programs in support of emerging, innovative technologies are a legitimate part of the policy toolkit' (Kaufman *et al*. 2023: 25).

Secondly, the COVID-19 pandemic exposed the flaws in over-dependence on global supply chains as these were disrupted and governments had to intervene to ensure local production of essential health and other products. Many governments are now seeking to develop 'sovereign capability' in key strategic industries through active industry development policies. These pressures are reinforced by extreme right Trump-like nationalists promoting a simple return to protectionism, and by the Keynesian left for which industry policies are part of a broader program for open but more diverse and equitable national economies (Stanford 2020).

Thirdly, growing economic and geopolitical strategic rivalry between the US and China, and Russia's invasion of Ukraine, have further fractured global production chains and prompted governments to depart even more in practice from the neoliberal global model. The concept of off-shoring production to the lowest cost locations has been challenged by local subsidies for 'on-shoring' of strategic industries, and 'friend-shoring', *i.e.*, establishing supply chains with strategic allies though arrangements like the Indo-Pacific Economic Framework (Ranald 2022).

Labor's policy and its implementation

The influence of these three global stresses can be seen in the economic and trade policies that Labor took to the 2022 election and has implemented during its first year in government.

First, climate concerns have had a significant impact on thinking about trade policies. Although there is debate from climate scientists and environmentalists about the need for much stronger action to reduce emissions (Climate Council 2022), the climate change policies that Labor took to the election went further than the Coalition's target of global net zero emissions targets by 2050 by legislating an additional 2030 carbon emissions reduction target of 43%; and strengthening the regulation of carbon emissions. In office, Labor has established the $15 billion National Reconstruction Fund to develop and fund low carbon industries, including $3 billion for renewable energy and other low carbon technology industries (National Reconstruction Fund 2022). Labor has also committed funds to rebuilding the manufacturing sector through more general local industry development policies with the aim of 'making high-value products for Australia and the world, creating good jobs in the outer suburbs and regions' (Ayres 2023; National Reconstruction Fund 2022).

Labor is reflecting these climate change policies in trade negotiations. The Australia-EU agreement until recently under negotiation[1] was modelled on the New Zealand-EU FTA cited above, which has commitments to global net zero targets and the development of renewable energy industries (New Zealand Ministry of Foreign Affairs and Trade 2022: 396). Labor has also signed a broader non-trade Green Economy Agreement with Singapore which aims to support the development of renewable energy industries in the region, for which negotiations began under the previous government (Department of Foreign Affairs and Trade 2022).

Second, Labor has also acted to reduce supply chain dependence on China, while attempting to stabilise the relationship with China as Australia's largest trading partner and negotiating to remove China's trade restrictions on timber, coal, barley and wine, (Speers 2023). The government has

[1] These negotiations collapsed on 29 October, 2023, when the EU refused to provide additional market access for Australian agricultural exports and insisted on restricting Australia's use of naming rights (Geographical indications) for products produced in Australia using European names like feta cheese and prosecco wine (Farrell 2023). The government responded to Australian agricultural producers who argued that the deal would not deliver sufficient commercial benefits to agriculture. The industry also opposed some of the EU's standards for sustainable farming practices, arguing that that the EU was attempting to 'import and impose trading partners' domestic policies on Australian farmers, dictating on-farm practices and undermining Australia's right to determine our own, legitimate pathway to sustainability (National Farmers Federation 2023: 6). The government response demonstrates the ongoing close involvement and influence of the agricultural industry in trade negotiations (Clun 2023).

appointed a Southeast Asia envoy and developed the Southeast Asia 2040 Strategy to improve trade and investment with the ten ASEAN countries (Moore 2023). The government is also participating in the Indo-Pacific Economic Framework of 14 Indo Pacific countries, which is a US initiative to divert supply chains away from China, including the US, Australia, New Zealand, India, Japan, South Korea, Brunei, Fiji, India, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam (Ranald 2022; DFAT 2023).

Other aspects of Labor's trade policy are influenced by public debates about the economic and social impacts of the Liberal National Coalition's policies of negotiating four regional and six bilateral agreements in the last decade (DFAT 2023) without any independent assessment of their economic, social and environmental impacts in Australia.

The Coalition's overriding trade objectives, shaped by the agricultural, mining and services industries were increased market access for mineral, agricultural and services exports, often negotiated through reduction of tariffs and all other forms of support for manufacturing industry, and the deregulation of service industries. This approach was summarised by Coalition Treasurer Joe Hockey's 2014 explanation of the decision to remove remaining tariffs and other domestic support to the automotive industry, resulting in the closure of the industry in 2017, and the loss of thousands of jobs in South Australia and Victoria:

> Ending the age of entitlement for industry was a hard decision but it needed to be made because as a result of that decision we were able to get free-trade agreements with Korea, Japan and China (Hockey, quoted in Maher 2014).

Labor's 2021 policy goals stated in contrast that 'trade agreements must be consistent with Australia's social and economic values, be based on widespread consultation, provide for appropriate minimum and enforceable labour and environmental standards, take account of social and economic impacts and allow sovereign governments to make decisions and implement policies in the interests of their citizens.' These and the more detailed commitments in the policy discussed below were reaffirmed at Labor's August 2023 national conference (ALP 2023: 7).

Labor's policy also differs from the Coalition in other areas. The Coalition had agreed to various clauses in trade agreements restricting governments' ability to regulate on health and other issues. For example, the US proposed and the Coalition government agreed in the original US-led 12-

member Trans-Pacific Partnership (TPP) to expand data protection monopolies on expensive biologic medicines from 5 to 8 years, in addition to the existing twenty-year patents on those medicines. Studies by health experts showed that the delay in availability of cheaper versions of these medicines would cost the Pharmaceutical Benefits Scheme hundreds of millions of dollars per year. This provision was suspended by the remaining 11 governments in 2017 after the US Trump administration withdrew from the agreement and it was rebranded as the Progressive Comprehensive Agreement for Trans-Pacific Partnership (CPTPP) (Gleeson *et al*. 2017).

The Coalition had also agreed to include Investor-State Dispute Settlement (ISDS) provisions in regional and bilateral agreements. ISDS provisions are only included in some agreements and give special rights for foreign (but not local) investors to be able to claim billions in compensation if they can argue that a change in law or policy would reduce their future profits, even if the policy is in the public interest. Labor policy has opposed ISDS since 2011 when the Philip Morris tobacco company sued the government over Labor's plain packaging law and a Productivity Commission Report concluded that there was no economic justification for giving additional legal rights to foreign investors (Ranald 2014: 89-90; Productivity Commission 2010: 269-74). Public criticism of ISDS has since been reinforced by fossil fuel companies claiming compensation for regulation of carbon emissions (Tienhaara *et al*. 2022) and by Clive Palmer registering a mining company in Singapore and using ISDS to sue the Australian government in two separate cases for over $340 billion (Ranald 2023).

The policy that Labor took to the election pledged to legislate to exclude from trade agreements ISDS, expansion of medicine monopolies and the expansion of numbers of vulnerable temporary workers (ALP 2021: 88), and to include int those agreements enforceable internationally recognised labour standards and environmental standards (ALP 2021: 88, 93-4). Labor policy also pledged to legislate to make the trade agreement process more transparent by requiring wider consultation with unions and community organisations as well as with business during negotiations, access for representatives of all these groups to negotiating texts, and publication of independent assessments of economic and regional impacts of the final text of trade agreements (ALP 2021: 90-1). The rationale for legislation was to have a public framework for which governments could be held accountable for both the process and content of trade agreements.

Labor's parliamentary inquiry

In November 2022, the Minister for Trade confirmed implementation of these policies (Farrell 2022), and has referred the question of legislating them to an Inquiry by the Joint Standing Committee on Trade and Investment Growth. Although Labor and Greens have a majority on the committee, there is pressure from business and from Department of Foreign Affairs and Trade against legislating such policies. Submissions closed in September 2023 and public hearings occurred in October and November. Submissions came from a wide range of business, unions, environmental, public health, church, aid and development and other community organisations (Joint Standing Committee on Trade and Investment Growth 2023).

The Department of Foreign Affairs and Trade has already given evidence to the committee which indicates scepticism about the need for changes to the trade negotiation process and about legislating to exclude or include particular content for trade agreements, claiming that legislation would hamper the flexibility of negotiations (Commonwealth of Australia Hansard 2023 and DFAT 2023b). Some business organisations like the Business Council of Australia have also opposed legislating a framework for these reasons. (Business Council of Australia 2023).

Conclusion

Aspects of the neoliberal vision of maximising global trade and investment and economic welfare through zero tariffs, minimal government regulation and no local industry policy have been challenged by the need for government action to address the climate crisis, the fracturing of global supply chains by the pandemic and by geopolitical tensions. Labor policy has responded to these trends. In its first year in office, the Labor government has acted to implement more interventionist policies to address the climate crisis and these policies are reflected in trade negotiations. It has also acted to stabilise trade relations with China, while developing alternative supply chains through its Southeast Asia strategy and through the US-initiated Indo-Pacific Economic Framework. Labor policy has also been influenced by experiences of the national impacts of previous trade agreements, pledging a more open process and to exclude from trade agreements measures like foreign investor rights to sue

governments and stronger medicine monopolies which maximise corporate interests but restrict the right of governments to regulate in the public interest. However the collapse of the EU negotiations demonstrates significant ongoing influence of agricultural industries as major exporters, despite changes of government. The Parliamentary Inquiry on legislating Labor policies is hearing evidence from unions and civil society groups which support such legislation and business groups which oppose it, and is facing scepticism from the Department of Foreign Affairs and Trade. It remains to be seen what the committee will recommend and how the government will respond to those recommendations.

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ENERGY POLICY

Matthew Ryan and Stuart Rosewarne

The 2022 federal election has been dubbed as the 'climate election', with voters supposedly ushering in the Albanese-led Labor Party and a diverse crossbench, motivated in large part by climate concerns (Slezak 2022). After distinct policy stasis under successive federal Coalition governments, a change is most welcome. Indeed, to go from a Question Time coal-wielding PM in Scott Morrison to a near-doubling of the national emissions reduction target and a declared $40 billion in renewables investment, that change would seem significant. Yet, in the year to June 2023, Australia's greenhouse gas emissions increased (DCCEEW 2023a). Excluding the land sector, where questionable offsetting abounds, Australia has only decreased its emissions on 2005 levels by 1.4%. Considering this context, we provide an overview and assessment of climate and energy policy under the Albanese government.

Labor's policy approach has looked to build on past initiatives. Labor's pre-election policy *Powering Australia* pledged substantial funding to escape the legacy of Coalition policies and to help reduce the carbon footprint of domestic energy markets. Plans for other sectors are yet to emerge but will ostensibly be addressed by 'sectoral plans' in their *Net Zero 2050* plan (DCCEEW 2023b). As these sectoral plans are yet to emerge, this article focuses on the most advanced facet of Labor's emissions reduction policy: energy. This has involved reinforcing and extending some of the policy schemes introduced by the Gillard Labor government: namely, the Clean Energy Finance Corporation and the Australian Renewable Energy Agency that provide access to discounted finance and seed funding. Other key policies represent a continuation of Coalition policy, especially the reliance on carbon offsets to meet emissions reduction goals, and (relatedly) the Safeguard Mechanism. The

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centrepiece policy for Labor is *Rewiring the Nation,* – funding set aside to enable the energy transmission network to accommodate growing renewable energy generation. Through these various policy mechanisms, Labor asserts it has increased 'the Government's total investment [in renewable energy] to more than $40 billion' (Chalmers 2023). That claim relies on some interesting accounting – especially 'off book' financing. But there has certainly been a distinct pivot in energy policy under Labor, which we might characterise as supporting a nascent fraction of private renewable capital.

Energy policy under Labor is not, however, without contradiction. The key policy designed to directly reduce heavy industrial emissions, the *Safeguard Mechanism*, has been found to be ineffectual: it will not directly reduce emissions until 2030 (Tilly 2023). When this is taken alongside Australia's enormous – and growing – fossil-fuel export industry, Labor's climate halo begins to slip. When we contextualise Labor's climate and energy policy in terms of our remaining global 'carbon budget', the halo falls off entirely. Even assuming Australia will hit its emissions reduction targets – an heroic assumption, as this article will show – if the world followed the same decarbonisation trajectory as Australia, we would have a 50:50 chance of warming exceeding 2.5°C – a truly cataclysmic future (Ryan 2023). Australia has even been named by the UNEP as one of the worst countries in the world, in terms of the 'production gap' between allowable emissions and the impact of planned fossil fuel expansion (SEI, Climate Analytics, E3G, IISD, and UNEP 2023). In short, Australia's historical entwinement with fossil capital is yet to be seriously challenged by the Albanese-Labor government. Meanwhile the transformation of the domestic energy market continues to proceed along market lines.

Here we explore this conundrum, tracing the way Labor energy policy is pulling in different directions: while there is absolutely a gradual decarbonisation of the domestic energy grid occurring – captured under *Powering Australia* and *Rewiring the Nation* (though contested, especially around the role of gas) – this policy direction is justified as an attempt to mitigate the impact of climate change. That mitigation is being entirely offset by the contradictory expansion of fossil fuel production and export. Against both of those futures, however, is a small, embattled alternative: community energy, a 'real utopia', which cuts against the dominant determinants of our energy regime, 'down under'.

The NEM foundations of Labor's policy

A key plank of Labor's policy platform for the 2022 election was *Powering Australia.* The most substantial element of this program is *Rewiring Australia*; and we focus here on its origins and character. Doing so demonstrates the contradictions of Labor's approach to the energy transition and speaks to its broader commitment to neoliberalism. The origins of *Rewiring Australia* lie in the neoliberal project to supplant the role of state governments in energy system governance: this project has resulted in some households bearing a disproportionate share of the cost of transitioning to a low-carbon economy, while maintaining and expanding profits for private electricity generators, distributors and retailers. This has become more institutionalised with the announcement of the roll out of the National Capacity Investment Scheme. The Scheme guarantees providers will be compensated if energy prices fall below a floor and thereby seeks to incentivise providers to maintain supply (DCCEEW 2023d).

The contention that the establishment of a national energy market based on *laissez faire* principles would foreground competition and enhance efficiency to drive down the cost of electricity was popularised with the commissioning and release of the *National Competition Policy Review* in 1993. The conclusion drawn that market liberalisation would deliver energy at lower cost and more reliably has, however, proved fallacious: prices have skyrocketed, and reliability was compromised and stabilisation was imposed with the suspension of the *laissez-faire* guidelines (Richardson 2019).

Contrary to the free-market rhetoric used to justify the privatisation of the electricity system, the transformation of formerly-state-owned utilities and regulated markets into a 'national' competitive market has resulted in a highly regulated energy system. Power generation, transmission and distribution are dominated by oligopolistic international corporations. They are guaranteed minimum rates of return on their investments. The Australian Energy Regulator (AER) and the Australian Energy Market Operator (AEMO) sanction this arrangement, justifying this in terms of the generation, transmission and distribution stages in the supply chain being regarded as 'natural monopolies'. The neoliberal project to liberalise energy markets has had little purchase in fostering competition in these stages. Some states warmed to the promised benefits of unbundling state-

owned and operated enterprises, corporatising these divisions and then privatising them.

The progress in establishing a national energy market subject to the dictates of *laissez-faire*-ism was frustrated by the Commonwealth Constitution decree that energy is a state responsibility, as much as it was by the physical layout of the energy systems designed to service state economies. Constitutional responsibility meant both tiers of the state had an interest in deliberations over the form of the National Energy Market (NEM). Victoria and South Australia were the only state governments to act on the call to privatise state energy utilities, although New South Wales privatised generators and distribution and transmission infrastructure some twenty years later. The sovereignty of the states also meant that the states could exercise their ambitions regarding emissions governance, and state initiatives often conflicted with successive Coalition governments' reluctance to develop substantive energy and emissions policy.

Despite federal recalcitrance under the Coalition from 2013, state and territory governments set their own minimum emissions reduction targets. The ACT committed to 65 to 75% by 2030, while New South Wales, South Australia, Victoria and the Northern Territory announced that they were each intent on achieving at least 50% renewables by 2030. Victoria and New South Wales have since increased their target to 65% and 70% by 2030, respectively, while Queensland followed with a plan to invest $19 billion in the state-owned energy system to set a bolder target of 70% by 2032. WA is the laggard state hoping to achieve a paltry 30% by 2050. The minority Liberal government in Tasmania counted itself as even greener, indicating that it would reach 200% of the reduction target while the Coalition government of New South Wales popularised its robust carbon abatement policy with a strong commitment to emissions reduction targets, which the Labor Party inherited when it was elected to office in NSW in March 2023.

Reimagining National Energy Market governance

Crucial to understanding the dynamics of climate policy formulation is recognising the catalyst that got the ball rolling on the modest decarbonisation to date. This was not so much the concern with the issue of emissions and the growing concentration of $CO_{2\text{-}e}$ in the atmosphere, but rather the neoliberal project to dissolve the role of state governments

in energy system governance to create a ‘national’ energy market. The governance institutions established to progress the NEM’s energy systems soon turned their attention to considering the need to invest in an infrastructure modernisation program that would occur alongside expanding renewable energy generation, transmission and distribution capacity. The well from which this program was drawn was the governance architecture that facilitated the establishment of the national energy market. This governance structure was based on three relatively autonomous agencies established to design the rules and regulations governing the market, enforce these rules and regulations and oversee the operation of the market. Investing in transmission and distribution infrastructure was to become the vehicle for hastening the integration of state-oriented energy systems into a national energy market (Rosewarne 2022).

Ironically, it was the machinations within the Liberal-National Party Coalition and the conservative faction’s determination to block any moves for liberal reform of energy policy that created an impetus for change. The ascension of Malcolm Turnbull to the Prime Ministership temporarily broke the conservative faction’s opposition to the development of energy policy. With some coal-fired power stations facing retirement, Turnbull realised that the Coalition could no longer sidestep the consequences of climate change for energy policy. Responding to the proactive initiatives of several state governments committing to robust emissions reduction targets, there was a consequential shift in the focus of debate within the Council of Australian Government (COAG) Energy Ministerial meetings. Anxious to expedite policy design, and with the backing of the COAG Energy Ministerial meeting, Turnbull established the Energy Security Board (ESB). Dr Kerry Schott, a highly regarded corporate director and senior state enterprise executive, was appointed as the CEO of the Board and assumed responsibility for projecting a more persuasive presence in the COAG forum. The ESB team very quickly changed the focus of Ministerial meetings and became an institutional force to be reckoned with. The COAG meeting commissioned the ESB and AEMO to prepare reports on the physical structure and organisation of the NEM that anticipated the future demand for energy and the capacity of the generation, transmission and distribution infrastructure to meet the nation’s demand. This was to be modelled with respect to an ever-growing energy system that operated within the constraints of various emission reduction scenarios.

Before the reports were completed, Turnbull submitted an energy policy to the Coalition Party room. The *National Energy Guarantee* would legislate an emissions reduction policy in line with the Paris accord. This was initially accepted and then rejected. Demonstrating a surprising lack of political acumen, Turnbull submitted a watered-down version of the *Guarantee* which was also rejected. He had no alternative but to resign the leadership of the Liberal Party. The conservative Scott Morrison took on the Prime Ministership and National Party conservative Angus Taylor the energy and emissions reduction portfolio.

In the meantime, the ESB wasted no time outlining a *Strategic Energy Plan* (2019) that could progress and guide energy policy formulation. Schott and Audrey Zibelman, AEMO's CEO, continued working on the modelling of a national energy market that incorporated emissions reductions objectives for the COAG Energy Ministerial forum, leading to the development of the *Integrated System Plan* (2020). Commissioned on the assumption that the *ISP* would provide a biennial modelling of the energy economy in transition, the *ISP* marked a turning point in energy policy design and was to become the key reference for the framing of policy. The *ISP* took the lead from the modelling completed by Nicholas Stern (2005-2006) for the British Labour government and Ross Garnaut for the Australian Labor Party (2008-2011). The *ISP* mapped the changing governance and infrastructure demands that would arise in the context of a variety of emission reduction scenarios as they would be determined over time. In producing the reports, the debate on energy policy and climate change became framed by a technocratic focus that would concentrate on planning the organisation and structure of the NEM, and how it might achieve different decarbonisation scenarios.

In an interesting unfolding of climate politics, the Coalition wrestled with what to do about the technocratic framing of energy with respect to emission governance. Concerns that the technocrats had become too influential in the COAG Energy Council led to launching an inquiry into the operation of the Energy Council. In the interests of silencing criticism of Coalition policy, the Council was replaced by the Energy National Cabinet Reform Committee (Conlan 2020). The Minister for Energy and Emissions Reduction, Angus Taylor, launched a hostile and public critique of the *ISP*. When Schott and Zibelman stood by their modelling, having no qualms in defending their analysis and recommendations (Ludlow 2020), Schott paid the price with her position not being extended (Macdonald-Smith 2021). Zibelman returned to the USA.

Notwithstanding these developments, the *ISP* was quite firmly established as the most likely model for the future.

The metamorphosis of the Labor Party?

One of the first pieces of legislation passed by the Albanese-Labor government, after the 2022 election, was the *Climate Change Bill 2022*, which increased the federal emissions reduction target from 26-28 to 43% reduction on 2005 levels by 2030, and to net-zero by 2050. For the first time since the federal Labor Party was last in government, the liberalisation of the energy market was being linked to emissions governance. But it was a loose link. Labor's commitment to the 43% target was decidedly conservative compared to state Labor declarations and targets deemed to be in line with Australia's 'fair share' of scientifically necessary emissions reductions for either a 1.5 or 2 degree-warmed world (Climate Action Tracker 2022). Labor's position displayed a surprising degree of timidity, and tacit acknowledgment of the limitations to *Rewiring the Nation*.

One explanation for the conservatism is that a more-ambitious target could be weaponised by Labor's political opponents. The Gillard Labor government's proposed carbon price had excited a negative campaign that brought an end to her leadership – and now the Coalition was pushing this button again. The lack of unanimity – and instrumental links to fossil capital (Murray and Frijters 2022) – in the Party was another factor. The development agendas of the Labor governments in Queensland and Western Australia remained focused on the resources sector; and a more ambitious national target could have impacted on the future of these governments. The revelation that the Premier of Western Australia's Labor government had directed the head of the WA Environment Protection Authority to desist from mandating carbon target reductions suggested a reluctance to take seriously emissions reduction goals (Diss 2023; Bourke 2023a). The EPA intervention had followed the exposure of Chevron's failure to fulfil the terms of its North West Shelf LNG development approval to capture and store $CO_{2\text{-}e}$ in spent oil wells. Queensland's Labor government was similarly vulnerable to criticism for committing to a 2050 zero-emissions target while simultaneously 'quietly' approving coal mine developments and gas extraction projects that estimates predicted could boost national emissions by 60% (Morris 2022). The Australian Petroleum

Production and Exploration Association (APPEA, now rebranded as the 'Australian Energy Producers') had established a foothold in the Coalition government, and then directed its lobbying toward Labor. APPEA had wielded considerable influence in making the case for gas as a transition fuel and its success is evidenced by Labor trumpeting its support for gas. Labor argued that gas was a cleaner source of energy than coal and which could ease the transition from coal; and this was written into Labor's energy policy platform (Coorey 2021). This reflected the enduring commitment of federal Labor to fossil fuels. Another powerful example of is the proposed Middle Arm development south of Darwin. During the 2022 election campaign, the Coalition announced $1.5 billion for this petrochemical precinct, which Labor quickly agreed to match – under pressure from lobbyists, including former Labor and Coalition ministers (Davies and Cox 2023).

The lack of unanimity within the Labor Party reflected the truncated nature of the NEM. The development of a national energy policy has been limited by the fact that the six states and territories operating on the basis that they enjoyed complete energy governance autonomy. More concretely, state energy governance was still very much the dominant force shaping the operation of energy markets; and there was a risk that an ambitious emissions target could test the reliability of markets to ensure the supply of electricity operations. This possibility became a reality in May 2022 when the AEMO intervened in the market, putting a cap on prices and then taking control of the wholesale markets and generation (Doran 2022; Belot 2022).

The 43% target was also regarded as a preliminary step with Labor asserting a bolder policy to distinguish the Party from the Coalition's, irrespective of Labor state government targets which were in most cases more ambitious. The federal Party had been giving some thought to restructuring the NEM governance architecture. In preparing for the first COAG energy ministers forum to be held since Labor assumed office, the Party made the break, tabling a proposal to 'integrate emissions reduction and energy policy in the national energy laws' (Department of Environment, Energy and Water 2023b).The ESB was axed and the National Energy Transformation Partnership formed as an advisory body to forge a common emissions reduction objective of net-zero emissions by 2050 (Department of Environment, Energy and Water 2023b; Climate Change Ministerial Council 2022a 2023). The Partnership seems motivated by a desire within the Labor party to wrest back control of policy

design from technocrats. But this can also be seen to be the product of shadowing Labor's conservatism, which underscored the reluctance to impose too many constraints on capital, especially given the state support that is on offer to invest in renewable energy generation.

The contradictions in *Rewiring the Nation*

The decision to have AEMO provide the *Integrated System Plan* as a biennial review has transformed what would develop into an ongoing progress report that served as the foundation for *Rewiring Australia* and, in the future, a potential audit of the success or otherwise of that policy. The *ISP* captures a snapshot of the structure and organisation of the NEM and evaluates the projects that would be required to deliver the requisite increase in renewable energy delivered from the main renewable sources. These vary according to the different scenarios, each contribution based on least cost, net market benefit principles. The *ISP* modelled the required change through the lens of four different scenarios: (1) Slow Change; (2) 'Progressive Change' that would involve ratcheting up emissions reductions over time; (3) a Step Change which the report proposed should serve as the Optimal Development Path as the foundation for *Rewiring the Nation*; and (4) a scenario in which a Hydrogen Superpower would emerge as a corollary of global forces pushing for optimising development.

The *ISP* anticipates that the transition from an economy fired by fossil fuels to one that draws on nature's 'free gifts' will make a substantial call on new capital, as infrastructure foundations are modernised. Investment to meet the additional infrastructural requirements needed to generate sufficient power from renewable sources to meet the anticipated increase in demand will be essential. The key finding is that:

> Without coal, this will require a nine-fold increase in utility-scale variable renewable energy [generated intermittently by harnessing solar irradiance and the force of wind turbines,] […] dispatchable batteries, pumped hydro or alternative storage to manage daily and seasonal variations in the output from fast-growing solar and wind generation [and] […] the generation and feed-in capability of millions of individual consumer-owned solar PV systems [coordinated in virtual power plants, and] […] a trebling of firming capacity, which will draw from increased storage capacity, adapt the network and install 10,000 kilometres of high-voltage towers to more systematically integrate the NEM (AEMO 2022: 6-10).

In an ESB survey of the preferred scenario, industry participants indicated a preference for the Step Change approach. This would call upon a substantial flow of capital through time, but AEMO neither quantifies the magnitude of capital that will finance the transition nor identifies the source/s of that capital, though modelling pursued elsewhere in a similar scenario to AEMOs 'hydrogen superpower' model indicates up to $1.5 trillion of investment would be required over the next decade (Net Zero Australia 2023). One premise was that the Commonwealth and state governments were expected to assume the lead and partnering to meet the cost of new infrastructure.

The *ISP* provides an unambiguous case for reinvigorating accumulation based on the energy sector, especially via the electrification of the economy; and *Rewiring the Nation* affects that plan. As much as it marks out new territory, it also rehearses some of the policy shortcomings of the past. For a start, the *ISP* and *Rewiring the Nation* show a reluctance to have the big polluters bear some proportion of the costs they are imposing on the world. Instead of recognising the existence of economic costs associated with environmental externalities and imposing penalties that would have encouraged the polluters to explore low-carbon technologies, the *ISP* flags the power generation activities that should be backed, while *Rewiring* indicates the scale of the financial backing that will be made available. Indeed, the federal and state governments continue to subsidise polluting industries, the $1.5 billion subsidy to the Middle Arm gas-exporting hub in Darwin being a case in point (Campbell *et al*. 2023). This in effect amounts to solace for the polluters failure to pursue less carbon-intensive production techniques as they should have been.

A similar argument applies to the Emissions Safeguard Mechanism which requires the 215 facilities that each produce 100,000 or more tonnes of CO2-e annually – and account for 30% of all emissions in Australia – to ostensibly reduce their emissions. Facilities must agree to setting thresholds or baselines that reflected their output and commit to reducing emissions step by step (RepuTex 2022; Armistead *et al.* 2023; Clean Energy Regulator 2023). The Safeguard Mechanism does little to challenge capital's polluting tendencies because it provides a relatively inexpensive means of meeting benchmarks as the polluters can meet their baselines by buying and surrendering carbon offsets (Armistead *et al.* 2023). Most recently, market analysis by Reputex (available only to paying customers of this small consulting firm) demonstrated that the Safeguard Mechanism would not lead to direct emissions reduction until late in the

decade (Tilly 2023). *Powering Australia* signalled the intent to conduct a review of the scheme with a view to addressing its weaknesses, including setting emissions baselines much higher than was warranted to avoid any constraints on production. Indeed, with an expanding array of carbon abatement units being certified for their carbon offset properties, competitive pressures likely deflate the price at which the offsets can be purchased, so that recourse to offsets becomes a less expensive option and discourages enterprises investing in technologies to mitigate emissions. Meanwhile, the right to surrender carbon offsets to meet baselines has also been called into question because some of these instruments lack integrity (Macintosh *et al.* 2023; Hemming *et al.* 2021).

What is abundantly clear in the making of *Rewiring the Nation* is that engaging capital in the transition is primarily based on the provision of incentives, and not extra-economic penalty measures, thereby deepening the state's role in funding the transition.

The *ISP*, as an ongoing biennial assessment of the NEM, will provide an appraisal of the energetic fecundity of the NEM but, because it will be looking forward, it will not be providing an audit of *Rewiring the Nation* expenditures. This is a fundamental shortcoming in *Powering Australia* because the project's costing is already demonstratively short of the mark. Given the scale of the project, and with the forecast need to add 10,000 kilometres of transmission capacity in the near future (Westerman 2023), it is inconceivable that the transition from an energy system based on fossil fuel to one based on renewable energy sources will come in on budget. A question for further research is to what extent a mature renewable electricity market can actually accrue profit. Certainly, questions around profitability loom large in investment decisions, when relying on the market to drive the necessary energy transition. *Rewiring the Nation* is an extremely costly venture and one in which the state carries much of the cost and the risk. That cost and risk will then be shifted to energy consumers, who will ultimately carry the cost of the state's intervention to shore up supply energy as a sphere of accumulation.

The Integrated System agenda

The ambitions of the *Integrated System Plan* are twofold: to continue to progress the integration of the NEM; and to bring the energy system into line with emissions reduction targets.

The NEM agenda also emphasises the benefits of scaling up generating and transmission capacity as an essential feature of the modernisation of the energy system. Scaling up was regarded by AEMO as crucial to minimising the risk arising from a shortfall in capacity to meet peak load demands. But it was also based on private capital's confidence in expanding the size of undertakings resulting in economies of scale. As Clayton Utz energy economist, Suzie Taylor, contended, the benefits would be multiplied with this modernisation because it would allow energy users to take 'advantage of transmission technology such as inverters, inertia and high-capacity storage batteries allowing more efficient and less polluting power production' (Taylor 2023). But the development was envisaged as entailing a more grandiose scenario in which the investment in modernising the system went beyond ensuring that there was sufficient capacity to meet demand. Rather, as Taylor observed: 'The grid can only accommodate this new reality if expanded and enhanced' (Taylor 2023). The rationale for scaling up investment was based on a supply-led dynamic: increasing supply would anticipate and avoid demand not being met. An expanded footprint was regarded as critical to establishing the competitive foundation of the industry and into the future.

The viability of these mega-generating projects must be questioned. For example, the Marinus Link project, designed to export Tasmania's renewables surplus to the mainland, is designed to enhance energy security and supply reliability. But there is no guarantee that there will be sufficient effective demand to consume this expanded capacity, as Victoria has approved a host of scaled-up renewable energy projects, including offshore banks of wind turbines (DCCEEW 2023c). Victoria assures the public that it can leverage investment off the project. There is a strange logic at work here, reminiscent of Say's Law in expecting that additional supply will spawn additional demand. Advocates of the mega-sized projects contend that these investments will provide the additional generating capacity to enable the electrification of the economy, transitioning from coal-fired power to clean energy.

None of these transition elements come cheaply; and there has been an extraordinary blow-out in the cost of the transition. For example, the construction of Snowy 2.0 has experienced a 500% escalation in the costs, and the end of the inflation is still not in sight (Macdonald-Smith 2023). Moreover, this does not include the additional costs of building the high-voltage transmission lines to deliver the power to where it might be

consumed. There has been a similar blow-out in the cost of the Marinus link. Originally estimated to cost between $3.3 and $3.8 billion, the cost has increased by $1.7 billion, despite halving the planned capacity as a cost-saving measure (Langenberg 2023). These costs are significant and, due to the current private organisation of the NEM, they will be borne by consumers.

Conclusions

The Albanese government's *Powering Australia* seeks to foster a new regime of accumulation, with energy as the current focus. That development agenda is premised on the objective of expanded capital accumulation. This makes for an intrinsic contradiction in the strategy of reducing emissions. The idea that we might 'cut with both arms of the scissors' and engage in any kind of demand-side management of emissions is never broached (Green and Denniss 2018).

Although the *ISP* does not contend that the state will be the premier source of capital, the evidence points in this direction. The *ISP* elected to nominate the Step Change model as reflecting the sentiment of the nation, and this is regarded as having already shaped the focus and pace of the concrete examples of the transition's momentum. The budget for *Rewiring the nation* quantifies the allocations that will contribute to meeting a proportion of the costs in modernising the transmission network and supporting the different forms of renewable energy generation.

The list of budget commitments is not exhaustive. Indeed, it is far from complete, and the magnitude of funding has to be qualified by the variable time frames over which funds will be expended. The initial allocation for the National Reconstruction Fund, for instance, was set at $5 billion, with the remaining $10 billion to be invested in instalments over the next decade (Joyce and Stanford 2023: 39). After 2030, the Fund is anticipated to generate enough revenue from existing investments to support new projects, imitating the marketised management of the CEFC to date. The state governments are also contributing to fund *Rewiring the Nation* projects. New South Wales, Victoria, and Tasmania will be meeting a proportion of the costs of interconnectors: some $3.1 billion, $2.25 billion and $1.79 million respectively. Governments attribute the significant increase in energy costs to international developments, such as the Russian assault on the Ukraine and post-COVID supply chain hiccups. However,

the extraordinary cost of the transitioning and its impact on price inflation cannot be willed away. Nor the ability of the corporations to game the system be denied. But the standout from this analysis is that capital, particularly those energy corporations dominating generation and transmission, are the beneficiaries of the asymmetry in power relations underwritten by the state. Put plainly, it is households and small businesses that are bearing the brunt of the transformation to a low-carbon economy, *but this need not be so*. An alternative approach could prioritise decentralisation and decommodification of energy, but the interests of private energy corporations are currently taking priority.

Crucially, any progress being made in the decarbonisation of the NEM, however contradictory, is vulnerable to being undermined by the continued dominance of the fossil-fuel extraction, production and export industry. Energy- and emissions-intensive industries are recorded as having resulted in a 17% increase in emissions levels since 2005 (Clean Energy Regulator 2023). Indeed, emissions reductions that have been achieved in NSW and Victoria are completely offset by increased emissions in WA and the NT, due in large part to the expansion of the gas industry (Campbell and Ryan 2023). As we talk about tens of billions being deployed within the east-coast electricity grid, $473 billion have been invested in oil and gas production in Australia since 2010 (APPEA 2022) – and from the vantage point of fossil capital, those investments must see returns. The production and sale of that gas will result in many billions of tons of greenhouse gas emissions, locking in a terrifying future.

The two energy futures being contested through the Australian state would appear to be a struggle between fractions of capital: an emergent renewable capital and 'green' finance sector on one hand, and fossil capital repositioning to exploit gas and carbon commodity frontiers on the other. But there are elements within current ALP policies that open the door to other possible socioecological relations – relations more decentralised and possibly de-commodified. These policies are the 'Household Energy Upgrades Fund', and the 'Community Batteries for Household Solar' component of the *Powering Australia* policy suite. Western Australia's installation of off-the grid solar power systems in remote First Nations communities are proving to be an economic solution to reducing emissions 'free from government operated energy providers' (WA Offgrid solar 2023). While small, these schemes seem to present what Erik Olin Wright (2010: 4) called 'real utopias': 'utopian destinations that have accessible waystations, utopian designs of institutions that can inform our practical

tasks of navigating a world of imperfect conditions for social change'. Energy transitions are, after all, fundamentally questions of power. Griffith (2023: 25), in laying out his 'protopia' for a decentralised, electrified, and renewable energy regime in Australia, indicates the stakes:

The losers will be the centralised (fossil-fuel) energy companies selling coal, gas and oil. The winners will be in the localised, decentralised energy economy, where many more people own the technologies for generating and storing energy, much of it produced locally in their communities.

Put simply, the current liberalised National Energy Market is very profitable for major (fossil fuel) generators and distributors: Origin Energy made $1.4 billion in profit in 2023, while AGL made $1.3 billion (Origin Energy 2023; AGL Energy 2023). The key question is whether sufficient power can be brought to bear on/through the ALP to foster a more democratic and less commodified energy future.

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INDUSTRY POLICY

Mark Dean and Shirley Jackson

Following nearly half a century as the 'policy that must not be named' (Cherif and Hasanov 2019), industrial policy has returned to broader public debates, no longer relegated to the political wilderness by neoliberal approaches to economic development. There is compelling evidence that strong government coordination and intervention into industrial development has been used successfully around the world (Juhász et al. 2023), in diverse economies from South Korea (Chang 1993; Lane 2021), Israel (Breznitz 2006; Hartmann *et al*. 2021), Norway (Capasso *et al.* 2019; Sogner 2023) and the United States (Mazzucato 2011). However, Australian attempts to develop local industrial policies have been denigrated as governments inefficiently 'picking winners' (Crowe 2007; Power 1990; Robertson 1991).

For Australian policymakers – and the Albanese Government in particular – a fulsome embrace of the productive potential of industry policy would require action on many fronts. However, to understand modern industry policy, our political economy must challenge the long held ideological belief that market failures are both created, and perpetuated, by state intervention into the otherwise perfect symmetry of a free and unfettered market (Graeber 2021; Rozier 2019). Crucially, for modern industry policy to be successful locally, it would also require a significant redevelopment of Australia's institutional capacity.

This article explores relevant international experience, particularly recent developments under the Biden Administration in the US, from which valuable lessons can be learned. It exposes fallacious beliefs in the primacy of market-led growth which characterises the state as being incapable of correcting market failures (*The Economist* 1993, 2022, 2023*)*. Instead, it

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posits that the inherently crisis-prone nature of late capitalism offers recurrent moments for reflexive policymaking in global economies; and, to develop the policy rationale, draws on Mariana Mazzucato's public-facing work (Mazzucato 2011, 2017, 2021) which has been widely cited, including by the Albanese Government in Australia (Chalmers 2023, 2017; *National Reconstruction Fund Corporation Bill 2022: Explanatory Memorandum* 2022).

The *Inflation Reduction Act*: Aims and scope

Nowhere has industry policy's recent rise been more apparent than in the USA, with the Biden Administration's victory in passing its *Inflation Reduction Act* (*IRA*) through Congress in 2022 (*Inflation Reduction Act* 2022). As its title suggests, the *IRA* has targeted the cost-of-living crisis currently being felt across the US economy. While primarily a vehicle to deliver an initial US$400 billion in new public expenditure and tax concessions, the scope of the *IRA* extends far beyond the provision of affordable pharmaceutical products for Americans. Crucially, it pairs policies targeting the cost-of-living crisis with significant investment in the renewable energy industry, providing generous tax credits while simultaneously increasing tax revenue from the considerable growth being experienced by private sector clean energy markets.

This targeted intervention has been designed to simultaneously slow inflation and reorient the US energy and manufacturing sectors towards the post-carbon economy. In essence, the *IRA* is an industrial policy strategy that seems fit-for-purpose in tackling the new normal of 'polycrisis' conditions (Tooze 2022).

Recent public analysis describes the *IRA* as catalysing new investment in the productive capabilities of US domestic manufacturing, including a significant overhaul of the way that research and development (R&D) is targeted towards the commercialisation of viable, cutting-edge technologies (Badlam *et al.* 2022). The *Act* contains numerous articles that encourage the procurement of critical supplies both from domestic and (crucially for Australia) from America's free trade partners, further reorienting US economic and foreign policy against China. Somewhat ironically, the *IRA* both allocates funding to environmental justice priorities and provides support for carbon capture and storage (CCS) technology, a spurious response to climate change preferred by fossil

capital which is widely criticised as being more likely to prolong the contribution of fossil fuels to climate change than reduce them (Baxter 2017; Climate Council 2023). Regardless of this antithetical concession to fossil capital, approximately US$393 billion will be invested in upgrading, repurposing, or replacing energy infrastructure across myriad sectors of the US economy, from energy and manufacturing to agriculture and water.

Interestingly, most of the *IRA's* funding (US$216 billion) is in the form of tax credits to corporations, a reform designed to stimulate private investment in energy infrastructure, innovative clean energy projects, advanced renewable technology, and vehicle manufacturing. There are some significant complications created by the interaction of these conflicted clauses. For example, firms can technically claim the full amount of tax incentives regardless of whether their liability is less than the credit provided, suggesting that many clean energy companies will be able to raise considerable profits from the *IRA's* provisions.

On the other hand, manufacturing facilities, producing everything from electric vehicles and solar panels to heat pumps and energy efficient home appliances, will only be eligible for the full tax incentive if they meet numerous requirements. Depending on which state they are operating in, manufacturers could have to meet certain wage conditions, apprenticeship ratios or requirements; or comply with location-specific environmental, waste and/or procurement targets (Hughes *et al.* 2022).

The significant price tag attached to this Democratic, or nominally 'left of centre', industry policy has drawn ire from its detractors, especially those from the opposing Republican Party. Whereas the initial legislation announced US$393 billion on tax and incentive provisions related to energy and climate projects, recent analysis by investment firm Goldman Sachs (2023) has since suggested that this figure could rise to US$1.2 trillion. However, the same analysis calculates the potential total private capital investment spend on renewable technologies and manufacturing to reach an estimated US$3 trillion. This cost has been reported by many media outlets and conservative politicians as a major cost to taxpayers (Kaufman 2023; Winegarden 2022; WSJ Editorial Team 2023). However, the estimated capital investment by private firms suggests that it will create more than twice the return in economic activity. Crucially, while the overall cost of the spend is immaterial if the outcome is a clean climate, the cost becomes unbearable if the spend is more likely to drive profits rather than to reduce the carbon emissions of fossil capital.

A ’New’ Washington Consensus?

Collectively, these characteristics reveal the economic, domestic, and foreign policy implications of the *IRA*. Arguably, its new industrial strategy represents a critical break with the neoliberal orthodoxy that has long governed both US and global economic relations. This pre-existing ‘Washington Consensus’ (Stiglitz 2002; Williamson 2004) comprised of a prescriptive set of market-fundamentalist policy reforms first employed in Latin America (Williamson 1990), but swiftly evolving into a normative global path dependency throughout all countries in receipt of assistance from the World Bank and IMF. The recent capitalist crises have challenged the dominance of this prescription, giving way to a period of ‘New Washington Consensus’ or ‘after-Washington Consensus’.

Arguably, this evolution has been between two distinct but related ‘varieties of capitalism’ rather than substantially changing the capitalist economic relations underpinning the system. But it has been a significant shift, shaped by domestic industrial (re)development on one hand and ‘friend-shoring’ on the other. At its core, friend-shoring is the practice of ‘sourcing or accessing resources from trusted or like-minded partners, often with an underlying emphasis on political alignment’ (Vivoda and Matthews 2023: 4), and represents a significant ‘spatial reordering of supply chains under the criterion of political convergence’ (Vivoda 2023: 2). Additionally, this investment into the economies of strategic allies has been complemented by encouraging an expansion of the productive capacity and industrial capabilities within their domestic markets (The White House 2023). This is accomplished through generous public subsidies combined with requirements for fair labour and environmental practices, which speak to the growing social and environmental responsibilities of states within contemporary political economic relations. For example, the recent signing of an agreement between the US and Australia to cooperate on the development of Australia’s critical minerals refining and processing industries is not just aimed at accelerating the growth of a clean energy supply chain between the two nations, but also seeks as an objective of the compact, fair environmental and labour standards in this supply chain.

Recently, in an address to the Brookings Institute, US National Security Advisor Jake Sullivan (2023) was explicit in naming this break from the previous orthodoxy of globalisation, describing the *IRA* as a response to several features of the polycrisis:

> This moment demands that we forge a new consensus […] a modern industrial and innovation strategy – both at home and with partners around the world. One that invests in the sources of our own economic and technological strength, that promotes diversified and resilient global supply chains, that sets high standards for everything from labor and the environment to trusted technology and good governance, and that deploys capital to deliver on public goods like climate and health.

The US, with its mature, extensive markets and complex industrial supply chains provides a critical 'baseline' for this new orthodoxy. In one light, the implications for the global economy are significant, as the structural power that the US wields will now extend to diffusing industrial policy as an acceptable norm within domestic economies, particularly when it is used to coordinate private markets towards socially and environmentally sustainable goals. However, this narrative is not universally accepted.

The European Union (EU) response to the IRA differs substantially from the American narrative (Scheinert 2023), as it depends less on tax subsidisation for corporations and instead on the more interventionist framework of its *Green Deal Industrial Plan*. Primarily, the EU has taken issue with the macro-goals of the *IRA*: to incentivise *domestic* production of renewable energy technologies and the development of global value chains for critical inputs that all lead to America. The IRA aims to re-shore American industry and reduce domestic dependence on the Chinese economy, while onshoring additional, critical capabilities needed to expand into new areas of renewable technology. The EU understands this well, fearing its own highly innovative renewables and manufacturing industries will relocate to one of the 50 states in pursuit of significant opportunities for the US Treasury to underwrite their industrial futures.

Could the same risks exist for Australian industry? Currently, the Albanese government has not offered a direct response to the *IRA* and appears to have less appetite for investment of this sort. Although its National Reconstruction Fund (NRF) has been funded with $15.2 billion, the government has yet to act on a subsequent motion carried at the ALP National Conference in August 2023 that pushed for a substantial increase in the size of the NRF. The Albanese government has all the imprimatur it needs to follow the New Washington Consensus and develop a socially and environmentally responsible renewable industrial strategy that will define Australia's economy for generations to come.

Industrial policy and Institutional Political Economy

In order to better understand the opportunities (and challenges) that the *IRA* presents to global economic relations in general, and the Australian political economy in particular, we utilise an Institutional Political Economy (IPE) approach to industrial policy that draws on the work of Chang (2002, 2011), Rodrik (2008, 2009), Polanyi (1957), Evans (1995), and Mazzucato (2011, 2017, 2021). Crucially, an IPE approach rejects the narrowly defined 'market economy' approach of neoclassical economics (NCE) and instead takes a broader view of capitalism as a system 'made up of a range of institutions, including the markets as institutions of exchange, the firms as institutions of production, and the state as the creator and regulator of the institutions governing their relationships (while itself being a political institution), as well as other informal institutions such as social convention (Chang 2002: 546). This institutional turn is one that acknowledges that as many economic interactions occur *within* organisations as between them through market exchange (Simon 1991), and that classical conceptions of 'market failure' could include many instances of 'organisational success' (Lazonick 1994: 228–62).

In other words, an IPE approach argues that NCE encourages a myopic view of the *market-as-economy* which excludes a large amount of economic activity and behaviour, and as such is insufficient to explain diverse problems and is incapable of offering pragmatic solutions. This narrow focus on the study of the market subordinates the needs of humans to the cause of economic growth, narrowly defined (Polanyi 1957: 36). Arguably, the lack of plurality and narrow focus of NCE has led a generation of economists to develop 'proficiency in utilizing their training in the static methodology of mainstream economic theory [through an] unquestioning acceptance of the ideology that views the perfection of market coordination as an economic ideal' (Lazonick 1994: 8). Such a perspective limits not only NCE scholars' academic analyses but also restricts the capacity of real-world actors, particularly industry policy bureaucrats, to respond adequately to situations that fall short of the ideal.

Instead, IPE invites us to consider the impacts of intervention beyond the state-market dichotomy. Through an analysis of the myriad institutions that comprise a modern economy within the capitalist mode of production, an IPE approach allows us to see multiple levels of success and failure within the economy and encourages targeted interventions *at the level*

where failure exists. As Chang (2002: 548-9) argues, the problem with the 'market primacy assumption' of NCE is that:

> the assumption deeply affects the very way in which we understand the nature and the development of the market, as well as its relationship with the state and other institutions. Unless we abandon this assumption and develop a theory that deals with the market, the state and other institutions on a more equal footing, our understanding of the role of the state will remain severely incomplete and biased.

When considering the current challenge of developing an industrial policy within Australia, the institutional frameworks developed by Rodrik (2008, 2009) and Mazzucato (2011, 2017, 2021) offer key insights that are readily applicable to the contemporary challenges of the polycrisis and the opportunities presented by the New Washington Consensus.

Institutional design features

In a series of papers published during the GFC, Rodrik (2008: 25-30; 2009: 21-3) outlines a framework for the design of institutions which can best facilitate industrial policy development. Crucially, while the framework contains 'general principles', the unique capabilities, capacities and circumstances of domestic actors are the foundations on which policy should be designed, a task that this paper considers in a latter section.

First, industry policy must contain a level of *embeddedness*. Drawing on the contributions of Polanyi (1957) and Evans (1995), the concept of embeddedness views institutions as being formed within the social, cultural and historical space: as such, they are imbued with the normative values and ideas of the structures in which they are contained. Where NCE utilises the assumptions of classical equilibrium theory, where all actors within a market behave rationally with access to perfect information (McKenzie 2002), an IPE approach assumes that informational asymmetry exists. Therefore, institutional design would start from this principle, recognising that the state lacks omniscience, and operates 'as a system of discovery about all those sources of uncertainty. It requires mechanisms for eliciting information about the constraints markets face' (Rodrik 2008: 26). Thus, rather than assuming that the choice is between total autonomy of the state and firms in the market or regulatory capture, an institutional approach in industry policy design would build on *strategic collaboration and coordination* between the actors, where the institutions are designed

to uncover 'where the most significant bottlenecks are, designing the most effective interventions, periodically evaluating the outcomes, and learning from the mistakes being made in the process' (Rodrik 2009: 20). Fundamentally, institutions embedded with the logics of both the expected challenges and desired outcomes have the greatest chance of policy optimisation. By building tripartite institutions that bring together the state, firms and unions, the institutions are embedded with the informational asymmetry that exists within imperfect markets, and allows for collaboration, cooperation and coordination.

Second, the familiar concepts of incentives and costs feature here in the effective design of the institutional infrastructure of industry policy as *carrot* and the *stick* elements to encourage investments in non-traditional areas (the carrot) but also weed out projects and investments that fail (the stick)' (Rodrik 2008: 28). Economic policymaking during the Washington Consensus era operated with a deliberately 'hands-off' approach to market intervention and relied heavily on incentives rather than compliance costs: tax incentives, debt-free investment, and strategic 'no-strings-attached' funding were common for investment in infrastructure, service provision or industrial processing. The much less common element was *conditional*ity, reflecting the tacit assumptions of NCE that governments are not only incapable of avoiding market failures (*The Economist* 1993, 2022, 2023), but tend to be their active cause (Graeber 2021; Rozier 2019). But conditionality is how the state can maximise the return on its investment. By creating significant compliance costs associated with failure to meet the social, cultural and environmental conditions required, the state can 'increase employment, upgrade wages, invest in training, engage in greening their production processes, address gender imbalances […] [and promote] behavioral responses […] which the firms may normally consider as an additional cost (Mazzucato and Rodrik 2023: 6).

While nominal review periods, monitoring and evaluation are regular aspects of procurement contracts, the compliance costs are vastly outweighed by the benefit of successfully winning a government contract. In Australia, despite 'cost blowouts' being front page news on major infrastructure projects worth tens of billions in public investment, a discussion of increasing compliance costs is often absent. Even in public reports detailing the substantial growth in over-run cost of major projects conducted by the influential centrist think tank, the Grattan Institute (Terrill *et al.* 2020), the solutions listed were greater information sharing, tightening monitoring periods and reviewing scoping requirements. While

these are consistent with the theoretical dominance of NCE during the Washington Consensus, they are out of step with modern industrial policy design. Targeted supports need to be paired with substantial compliance costs; and benchmarking that serves the social, political and cultural needs of diverse stakeholders in industrial strategy (including workers, community members, First Peoples and the natural environment), not just the material wants of private shareholders.

Third, modern industrial policy design needs clear *accountability* to be effective. Where the state is absent, markets routinely fail to deliver on social aims and the public is disadvantaged. However, when public accountability is inherent in policy design, there is more transparency in how decisions are made and 'why certain activities or firms are favoured – especially since industrial policy may often seem to privilege large and politically connected firms rather than SMEs or poorer parts of the economy' (Rodrik 2009: 23). By designing institutions that are tasked with accountability, industrial policy can remain focused on the challenges it seeks to overcome, and (when combined with adequate compliance costs) reduce the likelihood of market failure. Models already exist for this level of accountability, even where they are imperfect. For example, while central banks operate with a clear remit to target inflation using specific monetary policy mechanisms, there are also clear expectations for reporting, review, and public accountability for their failures. Similarly, where a semi-autonomous 'developmental bank' model is utilised for industrial policymaking, the state can set 'quantitative targets for a range of venture-fund type activities' (Rodrik 2008: 30), require the institution to provide regular reports on its activities and send its representatives to regular governmental hearings to discuss those reports.

While these three design principles, when combined, have the potential to ensure integrity, efficiency and transparency, the bricks and mortar of industrial policy require practical depth and functional expansion; in short, they need a fourth feature: *mission orientation*. This requires several steps for ambitious governments (Mazzucato 2021: 121-37). The chosen mission must be one that is bold and encourages buy-in from the general population; and it must be socially relevant. For example, the reduction of carbon emissions, creating decent work opportunities, or increasing the material security of communities are all socially relevant missions. Moreover, missions also need solutions that are grounded in observable outcomes, either by improving people's day to day lives or appealing to their imagination.

In the above examples, outcomes are observed through cleaner, cheaper electricity, increased wages or attitudinal reports of wellbeing. Additionally, while any mission-oriented strategy must be ambitious, it needs also to be built on *realistic*, *measurable* and *time bound* interventions that are linked clearly to a political direction. These measures can either be binary (for example, in the space race: a country either lands someone on the moon, or they do not), or they can be quantifiable and progressive targets that are linked to concrete actions (*i.e.*, an interim emissions target of 65% reduction on 2005 emissions levels).

Milestones like these allow not only for review and reflection on progress but encourage a diversity of tactics to help achieve different goals during the implementation phase. Any goal should be focused on attracting research and innovation investment, from public and private sources, and seek to *crowd in* funding around shared goals. Contrary to conventional logic which presupposes that government investment in research and technology crowds out private investors, this early investment by government often does the opposite. It 'stimulates private investment that would otherwise not have happened [...] [expanding] the overall pie of national output, which has benefits for both public and private investors' (Mazzucato 2013: 9).

Finally, missions must 'encourage multiple solutions instead of focusing on a single development path or technology (Mazzucato 2021: 124). Put another way, while there must be a singular purpose to the industrial agenda that targets a specific problem, the goal should be one that is so broad as to encourage multiple projects working towards its solution. This criterion should encourage smart government investment into a range of strategies, approaches and 'angles' that confront the various challenges that the targeted problem creates.

Building Australia's industrial policy response to the *IRA*

How, in practice, could Australian industrial policy be developed to reduce inflation, grow the economy and reduce carbon emissions? While the partisan politics of the federal parliament is not conducive to a broad commitment to action, there is growing extra-parliamentary pressure. A coalition of diverse stakeholders has recently launched a campaign for a A$100 billion *Australian Renewables Industry Package* as a 'significant response from the Australian Government to the US Inflation Reduction

Act' (Smart Energy Council 2023). This coalition includes many powerful stakeholders within Australia's polity, including the Australian Conservation Foundation (ACF), Australian Council of Trade Unions (ACTU), Clean Energy Council (CEC), Climate Action Network Australia (CANA), Climate Energy Finance (CEF), First Nations Clean Energy Network, New Energy Nexus, Rewiring Australia and the Smart Energy Council (Australian Conservation Foundation 2023; New Energy Nexus 2023), who have collectively endorsed a call for A$100 billion in targeted investment and government intervention (Buckley and Palese 2023). The coalition aims to pressure the Albanese Government to substantially increase its commitment to funding Australia's clean energy reindustrialisation, which has proved prescient in pre-empting the necessary institutional embeddedness required of an Australian response to the *IRA*. It represents the kind of strategic and coordinated assemblage of institutional power necessary to understand industrial policy from multiple perspectives, including at the critical intersection of economic and environmental justice. As the stakeholders are responsible for areas of primary production, supply chain management and technological development, as well as innovation, research and commercialisation camps, there is significant scope for this bloc to work proactively with the government to build an institutionally robust industrial policy.

This response to the *IRA* could not be timelier. The Climate Council has declared that the state 'must act fast' to develop a response to the *IRA* if Australia is to successfully transition to a post-carbon economy and avoid remaining fixed in its position as a mere quarry for critical minerals, which are essential to powering the global renewables transformation (Bradshaw *et al.* 2023). The A$15.2 billion currently allocated to funding Australia's NRF does not provide the scale needed to ensure an effective and just transition. It is imperative therefore that the Albanese government increase its fiscal commitment. Economists at the Centre for Future Work contend it would be necessary to commit A$83 to $138 billion 'over 10 years in fiscal supports and incentives to match US benchmarks for domestic renewable industry (Joyce and Stanford 2023: 5). This estimate represents at least a five-fold increase in the Australian context to deliver for the nation what the *IRA* is aiming to do for the US economy.

Over and above the need for extra fiscal backing, it is in considerations of conditionalities and accountabilities, as previously discussed, that there is major scope for Australia to take a different path to the US. The *IRA* is arguably all sticks, no carrots. Crucially, it does not address the issue of

public ownership, offer clear measurables for any tax credits, or ensure a return on public investment in private capital. In this way, the *IRA* contrasts with the *CHIPS Act*, passed in parallel, which disciplines private capital into national security priorities for the development of larger sovereign manufacturing capabilities in the semiconductor industry. The strategic geopolitical and national security implications of the *CHIPS Act* are very clear. Yet the same 'mission' approach to climate change is not present in the *IRA*. Outside of electricity grid generation infrastructure, the *IRA* lacks any broader and long-term vision for developing the necessary industrial framework to ensure renewable energy sources proliferate and to help meet energy needs within and beyond the US through existing networks. It is implicit that the private market will deliver this infrastructure, which would do little to ensure a long-term public share of the profits without conditionalities attached to private enterprise in renewable energy markets.

Australia's development of a coordinated industrial strategy in response to the *IRA* should therefore consider, alongside any tax incentives and subsidies, conditionalities like public equity and other mechanisms that discipline the inevitable influx of private capital. Where Australia has major opportunities to compete with the *IRA* on areas like biomass, electricity generation and transmission, electric vehicle componentry (including batteries) and hydrogen, this competition must be built on a foundation of decent work, positive environmental outcomes and justice for Australia's First Peoples.

With these aims, the design of an Australian industrial policy response can create conditionalities for access to the country's natural resource base, from the vast wealth of mineral reserves to the bountiful solar, wind and wave power, in ways that returns benefits to all Australian stakeholders, not just private shareholders. The government can send clear signals to private enterprise that failure to meet social, environmental and governance obligations will be met with severe penalties associated with failing to deliver on the primary mission-oriented objective; namely, a green industrial strategy which grows clean energy systems, diversifies the industrial base and ensures secure, decent work for all who want it.

At the time of writing, there are still only weak indications of the Albanese government's understanding that strict conditionalities are needed to ensure a sustainable industrial future in Australia; one in which the nation busies itself with the manufacture of complex, value-added products for

export, and delivers the associated high-skill, high-wage jobs. In an opinion piece by the Prime Minister in *The West Australian*, coinciding with his visit to Washington DC in part to develop the US-Australia critical minerals compact, he restated his commitment to building 'end-to-end sustainable, reliable and transparent critical minerals supply chains globally' (Albanese 2023) but was silent about the impact the agreement could have on workers, First Nations people, or the environment.

Additionally, it remains unclear how the current *Critical Minerals Facility* is the appropriate mechanism to deliver these stated supply chain objectives. The Facility is designed to assess projects based only on export feasibility and global market considerations, with no remit for domestic downstream manufacturing opportunities. Taken together with the *IRA*, the detail of the US-Australia compact allows for Australian resources to be considered as part of Australia's free trade agreement with the US where they are critical inputs to defence, critical minerals and clean energy (Morgan 2023). Hence, the kind of 'crowding in' that Australia can expect to see will only go as far as incentivising a further expansion of foreign mining interests in Australia's resources industries. There is little, if any, evidence that the current agreements will deliver on downstream processing or value-adding transformation of Australia's industrial capabilities for products like lithium-ion batteries, wind turbine and solar panel components. This all seems to suggest that Australia's position in the emerging global supply chain will only shift marginally as its commodities are earmarked as raw inputs to IRA-funded manufacturing in the US.

This is unless the Albanese Government can provide the Australian public with the mission-orientation so desperately needed to avoid falling short of the nation's industrial potential. There is little doubt within the scientific community that, as the climate changes, Australia will continue to grow hotter and drier, and will pose an exponentially greater threat to communities and ecosystems over the medium- and long-term. However, in the short-term, Australia is also experiencing a cost-of-living crisis, which threatens economic stagnation. Despite recurrent rhetoric from Australian governments over the past decade about the nation's high standing as an economically complex and prosperous nation, its underdeveloped industrial structure means Australia is more comparable to some of the poorer nations. In the *Atlas of Economic Complexity*, which measures the diversification and development of the industrial base in domestic economies, Australia ranked 9th in the world for GDP per capita

but only ranked 93rd for economic complexity (Harvard University 2021). Moreover, Australia has been falling in those economic complexity rankings: since the turn of the century, its ranking has dropped by 31 positions. Unless this trend is reversed, the Australian economy will be less able to provide for its citizens and its resource dependence will leave it vulnerable to future polycrises and other external shocks.

Continuing on the current well-trodden path risks Australia's economic and social future being handcuffed to further, catastrophic fossil fuel extraction. As Aronoff (2023) notes, with possibly trillions of dollars yet to be made from coal, oil and gas reserves, these must be made worthless, but '[o]nly the state can keep a company from doing what is profitable'.

Industry policy for the polycrisis

How might the Federal government's ostensible mission orientation shift from propping up US domestic and foreign policy, and towards the institutional structure required to form Australia's own strategy to rebuild the nation differently? Australia's response to the *IRA* requires a far greater grounding in the principle of accountability, which we are yet to fully see from the Albanese Government. The current trajectory risks repeating, perilously, the unlearned lessons of the Australian 'Resource Curse' and Australia's institutional 'Quarry Vision', locking the emerging policy framework (Pearse 2005) – or, at least, the governance element of its tripartism – into a sclerotic embeddedness unfit for meeting the challenges of a polycrisis world. Taking the opportunities presented by global green industrial transformations requires development of an industry policy response for driving structural change in Australia's economy and an institutional policy framework that is reflexive, responsive, accountable and sustainable in social, environmental and governance terms.

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MONETARY POLICY

Mike Beggs

Monetary policy differs from other aspects of economic and social policy because it is not directly under the control of the federal government: it is managed by the Reserve Bank of Australia (RBA), which operates on the principle of central bank independence, at 'arm's length' from the government. Although the Bank is operationally independent, its aims and powers are set out in legislation, and interpreted in the Statement on the Conduct of Monetary Policy, all of which can be changed by the government of the day. Moreover, because the monetary policy that the Bank pursues impacts on macroeconomic conditions, it constrains what any government can effectively do in other policy areas. Currently, the wave of inflation over the last two years has loomed large among the economic challenges facing both the Bank and the Albanese government. This ongoing inflation – together with the report of the review of the Bank established by Treasurer Jim Chalmers – make it opportune now to assess the role of monetary policy in Australia.

For many years the Reserve Bank of Australia basked in success. The monetary policy framework has been stable for a generation. In 1995, two years into the 'inflation targeting' era – then seen as an experiment – Bank economists Guy Debelle and Glenn Stevens set out how success should be judged: 'if, some years hence, we can look back and observe that the average rate of inflation has a "2" in front of the decimal place, that will be regarded as a success' (Debelle and Stevens 1995: 3). Just over two decades later, in 2018, the Bank's annual conference looked back on 'Twenty-five Years of Inflation Targeting in Australia'. Debelle, then Deputy Governor, could happily report that the main thing that had changed was 'the degree of confidence that the regime might actually work [...] The proof of the pudding has been in the eating' (Debelle 2018: 53).

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Since then, history has come rapidly to the RBA. The notion of having an independent review of the central bank gained prominence in September 2021, following a recommendation of the OECD's *Economic Survey* of Australia. Its main concern was underlying inflation *undershooting* the 2-3% target since 2015, and it mentioned 'overly tight monetary policy settings' in the pre-pandemic years (OECD 2021: 27). Both the Coalition government and Labor in Opposition flagged a review to take place after the election (Mizen and Kehoe 2021). By the time the new Labor Treasurer officially announced the Review in July 2022, inflation had decidedly burst out the *other* side of the target zone, with the consumer price index rising 7.1% over the previous 12 months. When the Review's report was released in March 2023, inflation had fallen back from its peak but remained above 6% according to the ABS's monthly indicator. The Bank had sharply raised the cash rate from the near-zero it had been since the pandemic emergency: it went from 0.10 to 1.35 in three steps between May and July, and then steadily to 3.60 by the time of the review.

This is a time of unpredictability: actual inflation in mid-2023 was running far above even the upside estimates made two years earlier.[1] In late 2023, the inflation rate remains well above 5%. The Bank expects it to continue to decline back into the target range by mid-2025, while unemployment rises to 4.5%. But its 90% confidence interval for consumer price inflation in mid-2025 stretches from below 1% to above 5% (RBA 2023d; 61). After a few months' pause, the Bank again raised the cash rate in November 2023, with inflation 'more persistent than expected' (Bullock 2023).[2]

This article uses the Review and recent commentary by the Reserve Bank itself to consider whether the post-pandemic inflation and policy response mark a turning point for Australian monetary policy, after a long period of relative stability. Its first section discusses the effect of the recent inflation on real wages, and the way in which the monetary policy response has further hit the disposable incomes of typical wage-earners. The following

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[1] The Bank did not report confidence intervals for its CPI projections in its 2021 surveys but did give 'upside' and 'downside' estimates around its central forecasts. In August 2021, its baseline forecast for trimmed mean inflation for the year ending in June 2023 was 2 %, and its upside forecast about 2.7% (RBA 2021: 70, 76). Actual trimmed mean inflation for the year ended June 2023 was 5.9% (RBA 2023c: 66).

[2] The Bank's October *Financial Stability Review* and November *Statement on Monetary Policy* arrived too late to fully discuss them here, but they do not seem to call for any revision to the points made below.

section puts the response of wages into historical context, arguing that the success of the 'inflation-targeting' regime should be understood in a broader context – including its freedom from responsibility for income distribution. Then comes a section discussing the difficulties a supply shock poses for the policy framework, because of its distributional effects and its aggravation of a dilemma between the Bank's statutory goals of price stability and full employment. The article concludes that, although the current inflation has revealed problems with the current monetary policy framework, it is likely to survive while there are no alternatives on the political horizon.[3]

Wages and interest rates: The double hit

Recent inflation has seriously eroded real wage rates (see: Greenwell 2024, figure sixteen in this issue). Measured by the wage price index, real wage rates fell by 5.5% between the June quarter of 2021 and the June quarter of 2023, reversing gains made since 2009. As measured by average weekly ordinary time earnings, real wage rates fell by 6.0% over the two-year period, returning to a level first passed in 2013.[4] This is a historically large and rapid decline in real wage rates, coming soon after years of slow real wage growth.

The decline has hit real wages across the spectrum, albeit those on lower wages have been shielded to some extent by the Fair Work Commission's recent decisions to increase award minimum wages, by 4.6 to 5.2% in 2022 and 5.75% in 2023. Though below inflation, this is much closer than has so-far been secured in most enterprise and individual agreements: for the lowest quintile, real wage rates fell only 3% in the year to December 2022 (RBA 2023b: 66). Continued strong demand for labour has also helped. In spite of the fall in real wage rates, real income from employment rose over the year, especially in the lowest quintile. This is because hours worked

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[3] The extraordinary role of the central bank in facilitating stimulus during the pandemic emergency is warrants analysis in a separate paper.

[4] The wage price index tracks movements in pay for the same work, giving a pure measure of wage changes but without registering shifts in the composition of jobs. The index of average weekly ordinary time earnings captures changes in the (ordinary, full-time) pay people get, which does capture the effects of shifts in the composition of jobs.

increased substantially, perhaps also due to overtime, bonuses and job switching in a tight labour market (RBA 2023b: 66).[5]

The fact that some workers have recovered lost real income by selling more hours of labour does not reverse the conclusion that they have lost badly from its declining real value. It is difficult to disentangle labour demand and supply, which have both been high, but part of the reason for near-record participation rates and increased hours surely involves households responding to the higher cost of living and rising mortgage rates by seeking more hours.[6] On average, workers who did not change hours or jobs 'will have seen their real incomes decline significantly' (RBA 2023b: 66).

Moreover, those with mortgages have seen disposable incomes eroded further by rising interest rates. Mortgage rates are not included in the consumer price index, but the ABS produces broader cost-of-living indices in which it is included. The 'Employee' living cost index – using a basket of expenses typical for households whose income comes primarily from employment – has been rising much faster than the consumer price index. In the year to June 2023, this index increased by 9.6%, compared with consumer price inflation of 7.0%, with the difference primarily explained by the increase in mortgage interest (ABS 2023b). Measured by the wage price index, the fall in real wage rates since the June quarter of 2021 is 7.3%; measured by average ordinary time weekly earnings, 7.8%.[7]

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[5] This information comes from the ABS's Single Touch Payroll data, derived from automatic employer reporting to the tax office. It reports total labour income per worker, but not hours worked or the composition of that income. It is not possible to disaggregate changes into their contributing factors (Australian Bureau of Statistics 2021). Data from the ABS Labour Force surveys show monthly hours worked growing strongly in 2022 but with serious volatility early on during the wave of the Omicron variant of COVID-19 – another factor complicating interpretation (ABS 2023a).

[6] Over the last quarter of 2021, underemployment – the proportion of employed people reporting they would prefer to be working more hours – fell sharply to its lowest level since 2008, and has remained flat since, suggesting that demand roughly accommodated supply of increased hours for those employed over 2022.

[7] Note, though, that real wages had risen higher in terms of the Employee living cost index earlier in the decade when interest rates were falling – the falls returned real wages to the levels of 2012 (WPI) and 2015 (AWOTE). All figures are given to June 2023, the latest data available at time of writing.

Australia is unusual in the extent to which monetary policy works quickly and directly through mortgage rates.[8] Variable-rate loans comprise about 70% of outstanding mortgage balances in Australia, compared with around a third in Canada, 15% in the UK and less than 5% in the US. Further, fixed-rate loan rates tend to be fixed for a shorter period: two years is typical, compared with five in Canada and the UK and 30 in the US. Thus, policy rates pass through to mortgage rates in Australia much faster and more fully than elsewhere (RBA 2023a: 19-22). Though the RBA believes (with some uncertainty) that 'the effect of Australian monetary policy on activity and inflation is similar to that in other comparable advanced countries,' the transmission channels are different (p. 21). The ratio of household debt to disposable income is more than twice as high today as it was in the early years of inflation targeting. Scheduled payments of mortgage interest and principal are already as large a share of household disposable income as they were when the cash rate was much higher in 2008; and are projected to rise sharply higher (RBA 2023e: 38).

After years of slow growth before the pandemic, real wage rates are not materially above their level of a decade or more ago. Rising interest rates are further squeezing the disposable incomes of mortgage borrowers. Whereas the RBA projects that real wage rates will soon reach their trough, the effects of interest rate rises are only beginning to be felt on spending and the labour market. The projections – and policy strategy – depend on the labour market loosening. The latest forecasts project nominal wages returning by 2025 to the 4% growth rate they last saw in the 2000s as unemployment rises to 4.25% and inflation returns to 3% (RBA 2023d: 60, 64). At that pace it will take years for real wage rates to recover the ground they have lost in the last two (p. 65). But if wages look like they might rise appreciably faster, policy will tighten further, in the absence of a productivity miracle.

Inflation as a distributional phenomenon

Wage-earners were able to maintain the real value of their pay in some other major inflationary episodes in Australian history. During the wool boom inflation of 1950-51, real wages were protected by automatic

[8] This is contrast to the postwar decades, when housing finance was sometimes deliberately shielded from monetary policy (Beggs 2015: 118).

quarterly cost-of-living adjustments that had been built into the Commonwealth arbitration system since the 1920s. Through the early years of the 1970s inflation, average wages outpaced inflation until 1976/77 (Beggs 2015: 198). The failure of wages to keep up with prices is a striking feature of the current inflation. It has greatly simplified the policy problem that there is no longer any real political expectation that wages *should* keep up with living costs, and that labour has little leverage for pursuing such an expectation anyway.

Inflation is always and everywhere a distributional phenomenon. That is the case because the trajectory of a person's real income depends on the extent to which they can keep their nominal income claims moving in line with the prices that matter to them. But it is also because attempts to defend (or improve) one's real income in the face of inflation can further feed inflation. Inflation has both distributional consequences and distributional causes.

Income distribution was central to the politics of inflation in Australia from the 1950s to the 1980s because Australia had an industrial arbitration system whose decisions had a large impact on the wage structure – making it both a point of leverage and a venue for debate. In the post-war decades, close to 90% of workers were covered by federal or State industry awards setting minimum hourly wages and additional margins for skill, experience and other features of their jobs.[9] For those workers, these centrally bargained ordinary-time wage rates accounted for the bulk of their actual pay.[10]

In contrast to the 'safety net' awards of today, the arbitration system directly determined most pay, though 'over-award' payments could be negotiated on top. The decisions of the tribunals were therefore of major macroeconomic importance. As a foundational minimum referred to by the rest of the award wage structure, the Basic Wage hearings at the national tribunal (later, Total or National wage cases) became a critical point of influence over wages and their response to inflation.

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[9] In 1954, 10.6% were uncovered; by 1963 this number had risen slightly to 12.3% (Vernon *et al.* 1965: 133, using gender workforce composition figures from p. 80).

[10] The Commonwealth Statistician's 1960 Survey of Wage Rates and Earnings, covering adult male private sector workers, found that mandated ordinary time award wages made up 81.1% of the average pay packet, overtime earnings 9.9%, and other earnings just 9%.

The tribunal decisions thus had a major impact on the pace of wage growth. How they responded to inflation mattered to both the distributional consequences – to what extent wages would keep up – and to further inflationary impulses from wage costs. The tribunals were judicial in form and so not exactly a branch of policy: the judges heard government submissions alongside those of unions and employers. Legislation and precedent established norms for the tribunals – involving fairness and maintenance of living standards – that could clash with macroeconomic 'rationality' as perceived by economists and government officials.

After the wool boom, macroeconomic arguments became more prominent and often decisive in the hearings. The 1953 Basic Wage decision was a watershed, ending automatic quarterly indexation of the Basic Wage to consumer prices, which had been in place since the 1920s. But there was no singular ‘macroeconomic rationality’ to follow, and no side had a monopoly on macroeconomic argument. The importance and volatility of international commodity prices upset the seemingly simple rule for price stability of tying nominal wage growth to labour productivity growth. With Australian conditions so susceptible to disturbances on world commodity markets, suppressing the response of wages would have meant wild swings in the distribution of national income. Unions began to call economists as expert witnesses, and a distinctive labour approach to incomes policy developed, which would culminate in the Prices and Incomes Accord of the 1980s.[11]

Macroeconomic policy was about more than demand management because neither price stability nor full employment were seen as negotiable. While the government was committed by the Bretton Woods Agreement to a fixed exchange rate, the balance of payments constraint limited how far policy could let domestic inflation outpace that abroad. Later, the possibility of an exchange rate spiral had the same effect (Beggs 2015: 31-71, 139-75; Beggs 2021). But the idea that macroeconomic policy should deliberately induce or allow unemployment to choke off wage growth was politically poisonous.

Tensions between the goals of full employment and price stability were widely recognised. The possibility was discussed in the Full Employment

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[11] I discuss the intersection of macroeconomic policy and arbitration in the 1950s in Beggs (2021).

White Paper of 1945 (paragraphs 74-79) and was a central theme of the 1965 *Report of the Committee of Economic Enquiry* (Vernon *et al.* 1965: esp. 43-6). There were always sceptics, including in Treasury, who believed a looser labour market would be necessary, but usually only for brief periods – the 'short sharp shock' to cool overheating. Even most of these would accept that this would be unnecessary if income claims could be negotiated – they were simply pessimistic about the prospects. The notion of permanently abandoning full employment had few proponents, well into the 1970s. Early econometric estimates of the 'natural rate of unemployment' (theoretical precursor to the NAIRU) found it to be around or below 2% – which was unsurprising since this level had been sustained on average for decades with no apparent tendency to accelerating inflation (Beggs 2018: 261-2).

Managed incomes policy proposals flourished on both sides of politics and, as of 1974, 'Australian economists appear to have reached an impressive consensus on prices and incomes policy' (Hagger 1978: 175). The arbitration system was at the core of the proposals, but it was recognised that wage restraint alone would be inadequate and lack legitimacy. Union consent would be necessary. Controls on prices and non-wage incomes would be part of the story, along with fiscal compensation.

This is not to say that there was a systematic incomes policy at any point. The arbitration system always only set minima, not maxima, and over the long run actual average wages tended to drift further above the award rates – especially when the tribunals attempted restraint. They had no power over prices, profits, or non-wage incomes, and attempts to restrain these were always half-hearted and politically difficult. This and fiscal compensation had to be negotiated in a separate political domain, making coordination difficult. But the importance of the arbitration system forced distribution to the heart of the politics of price stability, even if it could not resolve the resulting tensions. Macroeconomic policy could not be a technocratic question of demand management alone so long as so much of the workforce's incomes depended on centralised negotiations. The Prices and Incomes Accord of the 1980s was both the culmination and last gasp of the incomes policy alternative, combining negotiated wage restraint with fiscal compensation via the 'social wage' and more progressivity in taxation. The prices and non-wage income controls envisioned at its beginning developed only in the weakest forms, and the fiscal aspects were a hostage to broader macroeconomic policy restraint (Beggs 2015, 206-10; 260-76).

Inflation stabilised, but at a stubbornly high rate, while unemployment declined only slowly across the decade. When recession at the turn of the 1990s sent unemployment back into double digits, but finally brought inflation back below 2%, the Labor government and central bank took advantage of 'the recession Australia had to have' to 'snap the stick of inflation' (both lines of then-Treasurer Paul Keating). Unemployment would be accepted as the price of price stability. It was the end of an era, though in retrospect we remember it as the birth of 'inflation targeting'.

From distributional politics to technocratic policy

How does the 2023 RBA Review understand the history of the policy regime it investigates? Simply that, in the 1990s, Australia finally emerged out of a hazy murk of bad policymaking, in which it had been wandering aimlessly for some decades:

> Australia experimented with various monetary policy frameworks before adopting inflation targeting in the early 1990s […] Throughout most of the 1970s and 1980s, the lack of a credible and coherent monetary policy framework, structural changes in the economy, and perceptions of fiscal and monetary ill-discipline led to serious bouts of inflation and a high unemployment rate (*Review*: 31).

This is a Whig view of policy history, treating it simply as the triumph of good policy over bad, showing no recognition of the political economic tensions behind the policy instability.

When the RBA Review considers a list of possible 'alternative monetary policy frameworks', it is considering a narrow question – the choice of monetary policy target (*Review*: 247-9). But the 'inflation targeting framework' is a metonym: a whole approach to monetary policy is named for one of its components, the target. Labels given to earlier approaches have referred to its instruments – the 'banking policy' period of the 1950s (Rowan 1980: 120-1), its theoretical framework (the 'Radcliffe period' of the 1960s (Rowan 1980: 122-3), or an intermediate target (the 'monetary targeting' of the late 1970s and early 1980s).

The regime inaugurated in 1993 could have been named for any or all of these features. Its main instrument is the cash rate; and its theoretical framework built around the expectations-augmented Phillips curve and the non-accelerating inflation rate of unemployment (NAIRU). Its intermediate targets include keeping a lid on expectations of inflation; and

leaving enough slack in the labour market to keep the pace of nominal wage growth within certain bounds. The former is served by maintaining the credibility of policy itself: showing the Bank is prepared to do what it takes in pursuit of the latter.

But even this is too narrow. To understand the distinctiveness of the 'inflation targeting' period of monetary policy, we need to consider not only the strategy of the central bank, but also its context as one branch of policy among others. In the early years of inflation targeting, Gruen and Stevens recognised that it was not only a shift in monetary policy strategy but also represented a transfer of responsibility *to* monetary policy. They noted that just ten years before, inflation was typically discussed as a product of wage-setting, and 'in this view of the world, the wages Accords of the 1980s […] determined the rate of wage and price expectations'. They acknowledged that the view that 'wages outcomes were the proximate determinant of prices' was a 'long-standing tradition in Australian economic policymaking and many academic circles.' But it had in the space of a few years come to seem old-fashioned, as Australia joined 'the global policy shift towards inflation targeting' (Gruen and Stevens 2000: 52-3).[12]

The distinctiveness of the 'inflation targeting' period is thus about much more than the selection of policy target for the central bank. It is also about the framing of inflation as a problem of monetary policy alone: a problem calling for the management of demand and not of income distribution.

How did distributional conflict fall out of the frame, in which it had been central so long? Gruen and Stevens give a clue: in support of their claim that inflation was now a matter for the RBA and not the then Industrial Relations Commission, they quote the Commission explaining in 1997 why it was limiting its increase to award wages:

> We have noted the Reserve Bank's intimations of the order of increase which, in its view, accords with its inflation target. Any increase greater than the amount which we grant carries a risk […] of leading to a rise in interest rates. In the current state of the economy […] we are unwilling to take that risk. (Industrial Relations Commission, quoted in Gruen and Stevens 2000: 53).

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[12] I have elaborated on this transition and discussed the continuing centrality of wages to monetary policy in the 2000s in Beggs (2018).

This is not evidence of a decline in the view that 'wages outcomes were the proximate determinant of prices,' but rather of a shift in the order of policy responsibility for wages outcomes.

A defining feature of the 'inflation targeting' era, setting it off from what came before, is widespread acceptance of the notion that demand management alone is sufficient for price stability. Wage growth is a proximate determinant of price growth, but both are claimed to have a predictable relationship to the level (and rate of change) of unemployment. The possibility of spiralling income claims is still recognised and appears in the model via expectations: once people come to expect a given rate of inflation, it becomes the baseline. Changes in the inflation rate from that baseline can be predicted from the unemployment rate.

The central bank has no way of intervening directly in wage or price setting. What it can do is signal that it will use the instrument at its disposal – monetary policy – to restrain demand as necessary to keep inflation in the target band, and to return it to the band if it does exceed it. The idea is that as long as this commitment is *credible*, the agents involved in wage and price setting will anchor their expectations to the target, and this will dampen spirals. This makes maintaining credibility an absolute policy priority.

Framing distribution in the recent inflation

The great shift in context – the movement towards enterprise and individual bargaining over wages – is as important a feature of today's macroeconomic policy regime as the internal shift in central bank strategy. Award wages are now a 'safety net' directly relevant to only around a fifth of workers, and there is no question of using the arbitration system as a powerful point of leverage over wages in general.

Though this is the loss of what was once seen as an important instrument (at least potentially), it has also simplified the policy problem. Because the arbitration system also had goals of equity and wellbeing, it complicated and politicised the pursuit of price stability. From the 1950s to the 1980s, policymakers could not ignore the question of whose incomes must adjust in pursuit of price stability. It had to be negotiated. That this is no longer the case reframes inflation as a technocratic problem. This can be seen in the tepid response to the distributional effects of the recent inflation. Nevertheless, the Reserve Bank has been drawn into some debate, framed

by the question of whether business profits and price-setting could be considered an independent cause of inflation. Its response illustrates how questions of price stability have been isolated from concerns with income distribution.

The Reserve Bank devoted a section of its May 2023 *Statement* to the question 'Have business profits contributed to inflation?' Though the only Australian version of the charge it responds to is an analysis from the Australia Institute (Stanford 2023), its researchers may also have been sensitive to the newly-released report of the RBA Review, which suggests that the Bank was late to respond to the post-pandemic inflation in part because it was not paying enough attention to inflationary impulses from non-wage sources (Review 2023: 58).

The Bank's analysis acknowledges that the aggregate profit share of private income (excluding the finance sector and dwellings) has risen sharply since 2021, but emphasises that the rise disappears if the mining sector is excluded.[13] Its rationale for excluding that sector is (1) that it was 'driven by commodities prices set in global markets, based on the balance of global supply and demand'; (2) that much of it was due to rises in prices of iron ore and base metals, which are mostly exported rather than used as domestic inputs; and (3) the profits will not have contributed much to domestic demand because much of what was not taxed went to foreign shareholders (RBA 2023b: 37-8). That is, the rise in the mining profit share was not fed by *domestic* dynamics and did not much contribute to them. Energy price increases were an exception, in that they did contribute to the recent inflation, but 'the primary underlying cause is global energy market conditions rather than higher markups in the energy sector independently driving prices'.

There has been no change in the labour and profit shares of national non-mining income. Looking at firm-level data, the RBA finds that – again outside mining – operating profit margins for large non-financial firms were roughly the same in September 2022 as they had been in 2019, though some of the largest firms widened margins (RBA 2023b: 39). The Bank concludes that 'these observations are consistent with firms having generally passed on higher costs to maintain their profit margins, and aggregate inflation having been driven by the balance of demand and

[13] As also discussed by Jericho and Stanford (2023).

supply factors, rather than changes in firms' pricing power' (RBA 2023b: 37).

Elsewhere, the Bank presented another dataset, including smaller firms, showing that median operating margin had in fact increased substantially over 2021 and 2022. It reports that 'most businesses were able to pass on higher input costs to rebuild their profit margins after the pandemic' (RBA 2023e: 44). This was not universal – margins were reduced in the construction sector, for example, because companies faced rising costs while operating under fixed-price contracts, and smaller businesses in general were less able to pass on cost increases (p. 45).

To summarise the argument: mining sector firms (and their owners) benefited from price increases but did not cause them, because commodity producers are price-takers. Firms outside the mining sector – on average – did not gain from price increases and did not cause them, although they have some price-setting power, because in raising prices they were simply maintaining their margins (on average).

This does not exonerate firms from a role in propagating inflation. It is not necessary for firms in general to increase their profit margins for their pricing strategies to propagate inflation beginning in the commodity sector. Price-taking mining firms may enjoy windfalls from rising prices on world commodity markets, while firms in other sectors then maintain their margins by raising prices in response to rising costs, in the knowledge that competitors are likely to follow suit (Weber and Wasner 2023). This is 'passive' only in the sense that the firms are behaving as they are expected (or modelled) to behave. It then seems a double-standard to treat attempts by workers to 'pass on' higher costs by getting wage increases that match inflation. But this has been the attitude expressed by Reserve Bank leadership, for example, in Governor Philip Lowe's response to questions at the National Press Club in April 2023. He remarked:

> [R]ising profits are not the source of the inflation pressures we have. Outside the resources sector, the share of national income that goes to profits is basically unchanged. I think what's been happening is demand is strong enough to allow firms to pass on the higher input costs into prices, so the firms have not suffered a decline in their profits as their costs have gone up, with the exception of the construction sector. But most sectors have been able to pass on the higher input costs into higher prices and have kept their profit margins the same.

However, regarding wages, Lowe (2023) said:

> It's really important that we don't develop a pattern here where wages and prices chase one another. If they do, inflation will get entrenched and we'll have to have higher interest rates.

To exclude the resources sector, however, is to exclude a large proportion of the corporate profits made in Australia – just over half in 2022, as Jericho and Stanford note (Jericho and Stanford 2023: 4-5). This makes them relevant to any consideration of the distributional *effects* of inflation, even apart from any question of corporate agency or the role of minerals prices in the *propagation* of inflation.

However, the basis for the central bank's seeming double standard can be understood as coming from a distinction between what it can influence and what it cannot, given the limited instruments at the Bank's disposal. Monetary policy has no way to influence firm price-setting strategy, or the supply-side conditions. It can only influence the demand side and labour market conditions. This restricted capacity influences not only its strategy but its very framing of inflation. The fact that wage growth did not initially spark the current inflation is immaterial to the inflation-targeting strategy: the Bank has one tool and must use it to restrain demand, cool the labour market, and maintain the credibility of its commitment to the target so that expectations do not become unanchored and fuel further rounds of inflation.

This policy strategy is made possible by the fact that there is now neither a general expectation that nominal wages should keep up with prices, nor an institutional framework for defending real wages – except, to some extent, for those still covered by industrial awards. It would not have been possible under the broader-based arbitration system of earlier decades, so its demise is a crucial feature of the current regime. It depends on wages bearing the brunt of adjustment to supply shocks.

Supply shocks, the NAIRU, and the future of the dual mandate

The RBA Review recognises the importance of unfavourable supply shocks to the current inflation and notes the 'risk that the Australian economy will experience more frequent supply disruptions in future' (Review 2023: 138). It recognises that this poses serious problems for the framework, but ultimately does not present a solution, except to

recommend building the Bank's capacity to model and forecast supply disruptions; and to engage in research about them. The Bank's own statements have consistently treated the current inflation not as a policy failure, but as sparked in large part by a supply shock over which monetary policy has little control. It claims that most of the models used in the Bank's forecasts:

> are designed to capture demand-driven inflationary pressures in the economy, which have been the most important drivers of inflation over recent decades. These models (like most forecasting models) were not well equipped to capture supply-driven inflation, the signal from global inflation surprises, a change in firms' pricing behaviour or shocks that are highly uneven across sectors. This is because it is difficult to capture the inflation signal from unusual drivers or unprecedented events in a forecasting framework, which relies on the statistical relationships that prevailed on average in the past. (RBA 2022: 79)

Supply chain disruptions and commodity price increases were global phenomena – hangovers from the pandemic and the Russian invasion of Ukraine. Australia had been further unlucky in suffering severe flooding on the east coast. All these 'were unpredictable or seemed too unlikely to include in the central forecasts' (p. 77).

It is not a simple matter to separate out supply from demand factors. The RBA has presented the results of three methods. One uses a simple rule tracking whether price and quantity changed in the same or different directions in each expenditure category of the consumer basket. This attributes about half of the increase in inflation over the year ended September 2022 to supply-side issues. A second uses the Bank's structural general equilibrium model, which captures relations between sectors rather than treating them in isolation. This method attributes three-quarters of the inflation increase to supply (RBA 2023a: 66-7). A third approach compares actual inflation to that predicted by the Bank's other major in-house model, a Phillips curve/'non-accelerating inflation rate of unemployment' (NAIRU) model, and attributes the error to 'implied supply disruptions'. By this measure, supply-side disruptions were responsible for 'around one-half to two-thirds of inflation' over the previous year (Beckers, Hambur and Williams 2023: 41). Had inflation moved in line with the central prediction of the NAIRU model, it would have only just exceeded the Bank's target zone: 3.1% over the year to March 2023.

Supply shocks of this magnitude raise a difficult problem for the inflation targeting framework. As the Bank explained, ‘monetary policy primarily affects the economy by influencing demand’ (RBA 2023a: 66): there is not much it can do about supply chain disruptions, global commodity prices, or natural disasters. But it cannot ignore them either unless it is ‘expected to be short lived and inflation expectations remain anchored’ (p. 66). Neither is the response as straightforward as adjusting aggregate demand downward to meet diminished aggregate supply. The capacity constraints tightened by supply problems are in specific parts of the economy, and there is no monetary policy tool that allows for fine-grained redirection of demand away from bottlenecks.[14] The central bank can aim only at a broad reduction in demand to dampen the transmission of inflationary dynamics outward from its origins, and the development of wage-price spirals.

The dual objectives, supply shocks, and the NAIRU

This opens the biggest potential political problem for the monetary policy framework. It remains politically uncomfortable to increase unemployment deliberately. It might be thought especially so when part of the aim is to ensure that wages do not keep up with inflation, after a decade of slow wage growth. The RBA Review calls for full employment to have equal priority with price stability among the central bank’s aims, which some have interpreted as a departure from a status quo in which the Bank prioritises price stability. However, it also predicts that supply shocks may become more frequent – and does not suggest how the Bank can deal with that without facing a dilemma.

Even disregarding the supply shock situation, the Review’s supposed elevation of ‘full employment’ should not be exaggerated. It recommends that ‘The RBA should have dual monetary policy objectives of price stability and full employment, with equal consideration given to each’ (p. iv). But everything there hangs on how ‘full employment’ is defined. The Reserve Bank Act has always formally committed the Board to using monetary policy to ‘best contribute to’ both ‘the stability of the currency’ and ‘the maintenance of full employment,’ as well as ‘the economic prosperity and welfare of the people of Australia’. Successive Statements

[14] In the immediate postwar period, some Australian economists and policymakers did envision an integration of macroeconomic and industrial policy (Jones 2021).

on the Conduct of Monetary Policy since the first in 1996 have reiterated the three objectives, but also interpreted them in a hierarchical way. The 1996 wording still appears almost verbatim in this most recent Statement of 2016:

> These objectives allow the Reserve Bank Board to focus on price (currency) stability, which is a crucial precondition for long-term economic growth and employment, while taking account of the implications of monetary policy for activity and levels of employment in the short term.

In other words, the Bank's role is to focus on price stability; by doing that it also aims at full employment and prosperity. There is no sense of tension between the objectives, at least in the long run.

The Review seems to make explicit what is usually left implicit, defining 'full employment' as the unemployment rate compatible with price stability – the 'non-accelerating inflation rate of unemployment' or NAIRU. It describes the NAIRU as '*a measure of full employment* commonly used by central banks that represents the lowest rate of unemployment that can be sustained without fuelling excessive inflation' (Review 2023: 32, emphasis added). Elsewhere, it notes that 'full employment is not directly measurable and changes over time' (p. 75) – which is exactly how the RBA has long described the NAIRU.

The Review's call for 'equal consideration' to both price stability and full employment is therefore not a departure from the Bank's standard practice. There is no conflict between price stability and full employment if full employment is defined as the level of unemployment compatible with price stability. If the Review leads the government and/or the Bank to define 'full employment' more explicitly in terms of the NAIRU, this will be not a strengthening but a weakening of the Act's full employment aim. Though, again, this will be a confirmation of a longstanding implicit interpretation rather than a new departure.[15]

Meanwhile, the government's recent 'White Paper on Jobs and Opportunities' gives an old-fashioned, common-sense definition of 'full employment': 'everyone who wants a job should be able to find one without having to search for too long,' and explicitly contrasts this with the NAIRU (Commonwealth of Australia 2023: 17-8). It does also define

[15] It seems possible, though, that the Bank may be asked to publicly estimate multiple indicators of full employment.

'sustained full employment' as a rate 'consistent with low and stable inflation,' but acknowledges that there may be a divergence between this 'sustainable' rate and what it calls 'inclusive full employment,' and that macroeconomic policy alone is not enough to reach the latter.

This also is a familiar trope in policy discussions of unemployment: At any point in time, there is a NAIRU representing the best macroeconomic policy can hope to sustain without provoking accelerating inflation. But this NAIRU is subject to change and lowering it can be a policy project over longer periods of time. This would resolve any tension within macroeconomic policy *if* the level of the NAIRU depended entirely on things outside the purview of demand management. There can then be a neat division of labour, with the central bank targeting the NAIRU, and other branches of policy aiming at lowering the NAIRU through microeconomic and labour market reforms.[16] But if the NAIRU is subject to hysteresis, with feedback loops from higher actual unemployment, this neat division disappears.

The RBA's use of the NAIRU is not mechanistic, and it has downplayed the concept since the pandemic. It does not routinely make those estimates public in real time. We have two main recent sources on how Bank economists think about the NAIRU, both pre-pandemic: a paper from 2017 by Tom Cusbert presenting the in-house NAIRU model; and a 2019 speech by Luci Ellis discussing how the Bank interprets it. Both emphasise that the NAIRU is the artefact of a model, and that there are major uncertainties in estimating it even assuming the model is specified to capture the relevant aspects of reality.

The Bank puts wide confidence intervals around the central estimate, especially its estimates for the most recent periods, which must be used for forecasting. Writing in mid-2017, Cusbert reported the recent central estimate for the NAIRU as 5.0%, but with the 70% confidence interval stretching from 3.9 to 6.0 %, and the 90 % confidence interval more than three percentage points wide, from 3.3 to 6.6 (Cusbert 2017: 15). The central estimates are often substantially revised in retrospect—not uncommonly by half a percentage point or more (Cusbert 2017: 17).

[16] I discuss interpretations of the 'time-varying NAIRU' in Beggs (2018). As noted there, the 1990s-vintage view that lowering the NAIRU was largely a matter of labour market deregulation has not been borne out in later literature. This should not have come as a surprise in Australia, given that it sustained very low unemployment for decades without any tendency to accelerating inflation, under a system of centralised bargaining.

By the time of Ellis's speech two years later, the Bank had modified the model to allow for 'the possibility that the data have become less volatile since the 1980s' (Ellis 2019: 10). But the confidence intervals are still wide, and clearly the NAIRU cannot be used by policymakers in a mechanical way to guide policy. The indicator is one among others, and the Bank and its Board refer to it alongside other indicators of wage and price pressure.

Given the degree of uncertainty, and the view that the NAIRU tends to move towards actual unemployment (hysteresis) (Cusbert 2017: 15), it might seem worthwhile for monetary policy to push and test the lower reaches in pursuit of full employment. Instead, the Bank is cautious, because of the risks of unleashing inflationary expectations if credibility slips. Some models suggest that undershooting the NAIRU will raise inflation faster than overshooting will bring it back down (Debelle and Vickery 1997: 26; Borland and McDonald 2000: 22). Combine this with the lags between policy decisions and their effects, and the implication is that policy must be ready to shoot first and ask questions later.[17]

The Review claims Bank NAIRU overestimates as one reason why 'monetary policy did not sufficiently support the economy between 2016 and 2019' (Review 2023: 35). In this period, consumer price inflation remained below the 2% lower bound of the target, while 'the RBA consistently expected a tighter labour market and a pick-up in wage growth to lift trimmed mean inflation back to the target range' (Review 2023: 34). For most of the 2010s the Bank's forecasts for wage price index growth repeatedly projected pickups that never came. The Bank has retrospectively revised downward its NAIRU estimates for that period. But a bias towards caution is built into the framework because there is no longer a venue for managing income claims down the track: it is a matter for countless decentralised wage bargains, which can only be managed via labour market slackness.

Finally, the Bank's NAIRU model is simply not designed to deal with supply shocks. There have not been any serious ones for most of the period over which the model has been estimated. It deals with the oil shock of the 1970s in an ad hoc way, using a dummy variable to incorporate an oil price term only for quarters before 1977 (Cusbert 2017: 20). The model relates unit wage cost and price inflation to the level and rate of change of

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[17] I elaborate on this point in Beggs (2018).

unemployment, to import prices, and to expectations. Supply shocks will appear initially through the error terms and import prices, and then through any effect on expectations. The model itself is unenlightening about the process of adaptation; and there is little past experience to go on. This is surely why the Bank has only rarely talked in terms of the NAIRU, or published estimates, since 2019: the pandemic and other shocks since have made it much less relevant to understanding recent inflationary dynamics.

Conclusion

If the RBA Review is right in expecting more frequent supply shocks, the recent inflation and response may foreshadow future difficulties. The possibility of a supply shock was not entirely an unanticipated problem. Debelle and Stevens, in the early years of inflation targeting, noted that monetary policy could reduce inflation arising from a supply shock only by further restraining output, which 'leaves the policy maker with difficult choices' (1995: 15). They raised the possibility of 'escape clauses' in the target, arguing that 'major, identifiable supply-side shocks may be a sufficient condition for the suspension of a target,' though suspending too often would undermine the credibility on which the regime depended.

For a long time, policy was not tested by this dilemma. Looking back from 2003, Stevens acknowledged that luck had played some role in monetary policy's success:

> For most of its history, inflation targeting has coincided with, if anything, favourable supply shocks. We have had positive surprises on productivity, and in the supply-enhancing effects of internationalisation of production. These surprises tended to push output up and prices down. This has been, we have to admit, a very benign environment in which to operate monetary policy. It may not always be this way in future (Stevens 2003: 24).

That 'good weather' on the supply side continued for the better part of another two decades – although monetary policy faced other challenges. Some policymakers may not have taken this for granted, but the political culture and media fell out of the habit of considering the possible ramifications of serious supply-side-generated inflation. Stevens himself was confident about what the Bank should do in such an event – hope that inflation expectations remain anchored, and 'focus on gradually bringing inflation down again' (2003: 24). But policy strategy does not happen in a

vacuum, and how the political environment would react was an open question, especially given the distributional consequences.

It is only now for the first time that the framework is facing the nemesis of stable policy in earlier decades: major shocks upending distributional stability. The question is whether wage-earners will now remain more sanguine about bearing the burden of adjustment than they were in those earlier episodes; and/or whether they are now more defenceless. The framework may be saved by the ease with which real wages absorb the shock. But this places the burden of adjustment to supply-side inflation on workers, and particularly those with variable-rate mortgages. The resulting social stresses and political consequences bear heavily on the political economic environment in which the current Labor government must operate.

While this article has made a case for bringing distribution back into consideration in macroeconomic policy, there is a big difficulty in giving it practical effect in the present circumstances. This is the marginalisation of the arbitration system, once a point of leverage and venue for politicisation: it was much easier to let wither away into a vestige than it would be to rebuild. But there may be 'lower hanging fruit' in other aspects of the incomes policy tradition. These include fiscal mechanisms – such as deferred income, the 'social wage', and redistributive transfers – that the government can use to deal with inflation while managing and counteracting the distributional consequences.

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TAX REFORM

David Richardson and Frank Stilwell

Arguments for improving the nation's taxation arrangements are not just voiced around the time of elections and changes of government. Recurrent arguments for change come from both disgruntled taxpayers and policy analysts concerned with the adequacy, efficiency and equity of the whole tax system. Recently joining the latter chorus, the former chief executive of the Grattan Institute declared herself to be an advocate of reform, just before taking up her position as Chair of the Productivity Commission where she will have ready access to the Labor government's Treasurer Jim Chalmers (Wood 2023). Could a new era of tax reform be coming?

Although the advent of a Labor government usually raises expectations (or fears) of tax reform, the current political context does not seem propitious. The ALP 'snatched defeat from the jaws of victory' at the 2019 election when, with Bill Shorten as leader, its proposed tax reforms played into the hands of unscrupulous LNP Coalition scaremongers. Ever since then, the ALP, federally, has been reluctant to make substantial tax reform proposals. It made precious few during the election campaign and, now in government, its focus seems to be on maintaining the trust of the electorate by being a 'safe pair of hands' and delivering its election promises. This is understandable, even commendable, and seems to have been effective, but it severely constrains what can be done in an important field like this.

Without major tax reform, many entrenched social and environmental problems are harder to redress, especially when the government is also intent on avoiding budget deficits. So, demands for tax reform resurface – and so they should because, seen from the perspective of basic Labor values, reversing the tendency towards growing socioeconomic inequality is almost impossible if major tax reform is ruled out.

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Taxation is also central to the fiscal policy of the government because how much tax is raised – and from whom – influences the overall structure and functioning of the economy, including the relative size of the public and private sectors. Without expanding revenue, most of the other policy fields discussed in this issue of JAPE become more problematic.

This article considers the possibilities and prospects of the current Labor government eventually undertaking substantial reform in this predictably controversial area. It considers what tax reforms are feasible and desirable, paying particular attention to reforms that would be effective in dealing with the growing inequality in the distribution of wealth in Australia as well as the adequacy and efficiency of the tax system. First though, we need to consider what the Labor government has already done.

The tax reform record to date

The first half of Labor's term in government, seen from a tax reform perspective, is more notable for what has *not* been done. Most notably, neither Prime Minister Anthony Albanese nor Treasurer Jim Chalmers has indicated an intention to repeal the third tranche of the income tax cuts that were introduced by the Morrison government in a staged sequence of changes to income tax. When that legislation came before Parliament, the Labor opposition, still mindful of its hurtful 2019 election experience and determined not to suffer similarly in 2022, decided to support the Morrison government's package in full. Now in government – and determined not to be seen as breaking any of their prior commitments – they are 'playing a straight bat' in denying any intention to change.

Meanwhile, of course, everyone in the government knows – as does every tax analyst – that the Stage 3 income tax cuts are massively regressive. That is, most of the tax relief they provide will go to the richest stratum of Australian taxpayers. The most commonly cited estimate is that 50% will go to the 10% of households with the highest pre-tax incomes, 72% goes to the top 20% but just 5% goes to the bottom 50%, while the lowest 20% get nothing (Denniss *et al.* 2022). These new tax rates are due to come into operation in July 2024. How Labor will deal with the situation when that time comes remains to be seen, of course. To date though, all the government's leaders have consistently denied any intention to change or cancel the tax cuts, despite the possibilities for gaining widespread public acceptance by pointing out the good reasons for doing so.

Other than the blatantly regressive distributional effect, two reasons could be used for changing track. One is that the political context has changed since the demise of the Morrison government, now widely understood in hindsight to have been flawed and irresponsible in so many other respects. The other, stronger, reason is that the economic situation has also changed, making the cuts incompatible with the current government's prudent approach to maintaining good social supports while dealing with a cost of living crisis. Now is clearly not a time to be giving major tax cuts to the rich. Yet, to date, the government is sticking to script.

Governmental stasis is also shown by the absence of any announced intention to review the tax system and the long-term options for reform. Announcing an inquiry or review a standard political tactic for a government wanting to pave the way for a change of policy direction. For the Labor government not to have done so yet would be understandable if its main current concern were to back away from the Stage 3 tax cuts: the time necessary for undertaking a broader public inquiry would not be propitious for that quick change. But tax inquiries and reviews can – and sometimes have – played important roles in laying the foundations for more comprehensive reforms. Moreover, it is Labor governments that have usually been the main drivers of those processes.

The Hawke government held a big 'tax summit' in 1985 to canvass a wide range of reforms; and the Rudd government initiated the review headed by Treasury Secretary, Ken Henry, for a similar purpose. In hindsight, the Henry report stands as a clear example of foundations not subsequently built on: rather, the displacement of the Rudd/Gillard/Rudd governments by the conservative LNP Coalition in 2013 presaged a decade of policy drift. But there is little political appetite for dusting off the Henry Review now, revisiting its arguments and recommendations, nor for initiating a new process attuned to the current political economic situation. It appears that comprehensive reform cannot even be contemplated.

Yet, it would be wrong to say that no tax reforms have been attempted, because significant steps *have* been made by Treasurer Jim Chalmers. One cluster of reforms relates to the taxation of large corporations, seeking to reduce the avenues whereby they minimise their tax - sometimes paying no tax at all. The *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill* was introduced into Parliament in June 2023, with the stated intention of raising an estimated $720 million in tax revenue over four years (Leigh 2023).

While this is quite 'small change' for those giant corporations, substantially more additional revenue is being raised through the work of the ATO's existing Tax Avoidance Taskforce which scrutinises multinational tax dealings. Although this is a difficult area in which to make progress because of the wide array of tax-avoidance options available to companies with 'global reach', the government is clearly committed to cooperation with other nations similarly seeking greater transparency and accountability. Perhaps the boldest of these activities is trying to establish a global minimum tax rate of 15% on the profits of all multinationals. Chalmers announced in his 2023-4 budget that the government would join a group of 'first-mover nations' to implement this goal, requiring corporations to pay that minimum tax rate in each jurisdiction where they operate (Leigh 2023).

Also significant was the government's announcement in February 2023 of its intention to reduce the taxation advantages that some very wealthy Australians have attained by holding massive amounts of their wealth in superannuation schemes. The announced policy change would double the tax rate on superannuation earnings from balances over $3 million, rising from its current rate of 15% to 30%. Notably, this higher tax rate will still be well below the top rate of income tax. It will also affect less than 80 thousand people – just 0.5% of Australian taxpayers – most of whom are using the exiting tax concession purely for tax avoidance. Pointing to the most extreme cases, the Prime Minister said: 'With 17 people having over $100 million in their superannuation accounts [...] most Australians would agree that that's not what superannuation was for. It's for people's retirement incomes' (Clun 2023).

Indeed, there are grounds for thinking that shutting down concessions that allow tax-minimisation by the super-rich is likely to command substantial public support. Significantly though, the government announced that the changes would only begin after the next election. The policy change may therefore be interpreted as the government 'putting a toe in the water' to see whether a small progressive tax change like this would be electorally acceptable.

To its credit, the government has also published details of the many other tax concessions going to the wealthy and high-income earners and shown how those concessions worsen inequality in Australia (Australian Government 2023c). This report, showing the amount of tax foregone, may be regarding a paving the way for further tax reforms down the track.

On face value, it is just a source of public information about the nature and size of existing 'tax expenditures', but the very act of making such information publicly available can be interpreted as creating an informed constituency for future tax reform efforts. Of course, what some regard as unfair and unjustifiable 'loopholes' in the current tax arrangement will always be defended as their inalienable rights by many of those taking advantage of those loopholes. But, taking the view that 'sunlight is the best disinfectant', revealing the sources of tax injustice is certainly a good step forward, perhaps thereby paving the way for future reforms to make the system fairer. It is also not hard to understand that eradicating unjustifiable loopholes simultaneously increases the government's revenue base, facilitating provision of further public spending in areas of social need, like health, education and the environment.

Finally, it is pertinent to note that the Albanese government also initiated an updated *Intergenerational Report* (*IGR*). At face value, this is no big deal, merely continuing a process that has been occurring periodically in Australia during the previous three decades. But the review's content is significant in this context because it is indicative of why tax reform may be regarded as necessary from a revenue perspective. It constitutes a basis that the federal government *could* use for making comprehensive tax reform, if not right now but in the not-too-distant future. What sort of basis that might be is a question needing careful consideration.

The Intergenerational Review

The *IGR 2023* was released to the public by Treasurer Jim Chalmers on 24 August 2023. It sits in a troubled tradition of similar reports, originating in 1995 with the then Opposition leader John Howard's establishment of a National Commission of Audit, as part of a conservative 'small government' agenda. The Commission's report set out to show that the future trends driven by the aging of the population would mean greater pressure for high government spending – but with a smaller proportion of the population actually in the income-earning workforce. Because that would cause a higher tax burden on the workers of the future, the government should start right away on a program of government expenditure cuts. As the Commission's report rather soothingly put it: 'urgent action is needed to moderate community expectations of government assistance, increase incentives for self-reliance [*sic*] in old age

and more equitably share the cost of age-related services funded by government' (NCA 1996). The intent was clearly to scare people into accepting a neoliberal policy agenda.

On becoming Prime Minister, Howard sought to institutionalise this process by setting up the first of what was a semi-regular series of IGRs. Their general feature ever since has been 40-year projections of government spending that make fiscal stresses seem certain to intensify, scaring commentators and the general public into accepting the neoliberal, 'small government' arguments about the need to curtail public spending rather than face intolerable increases in tax rates. This was particularly evident in the 2015 *IGR* which, according to its introduction by the then Treasurer Joe Hockey, set out 'what we need to do if we are to maintain and improve our standards of living' (Australian Government 2015: iii). Hockey's subsequent federal budget, attempting to push through draconian cuts to government services and welfare, remains notorious to this day for its harshness and the public uproar that it created.

While the 2023 *IGR* (Australian Government 2023) issued by Jim Chalmers is softer in tone, similar themes are evident, both in methodology and in the political economic implications. The methodological issue concerns the single-minded focus on GDP – to the exclusion of everything else – as the basis on which future incomes and wellbeing are projected. A completely different perspective arises if, instead of GDP, a wider and more accurate definition of 'income' is adopted. The political economic implications then become radically different, mainly because the rapid growth of wealth and capital gains comes into the spotlight, as does the potential for increasing the tax on wealth and capital gains. Seen from this perspective, the framing of all the IGRs, including the latest one undertaken on Chalmers' watch, is deeply flawed. However, *if modified to consider projected volumes of wealth and capital gains,* IGRs can provide a useful basis for consideration of what tax reforms would make the system better serve the nation's long-term social needs and capacities.

Why focus on wealth and capital gains?

Whereas income is a *flow* over time (arising from wages, interest, profits, rent or transfer payments), wealth is a *stock* (comprising assets, ranging from physical assets like houses and yachts to financial assets like shares, bonds and cash). While people can increase their wealth as they save out

of their incomes, quantitatively much more important are the increases in wealth that come from receiving capital gains. Capital gains arise from the increasing market prices of assets, whether physical assets like houses or financial assets like shares. They are the principal means by which wealth begets more wealth, especially in an inflationary economic environment. Capital gains can be very large, though they can also be very volatile. Based on inspection of ABS (2023a) data, capital gains have been adding, on average, an additional 42.9% to Australian household incomes over the 10 years to March 2023. Because most households actually get very little or no income through this channel, it follows that the wealthiest households are receiving prodigious amounts.

Examinations of the potential for tax revenues to grow at a rate matching future spending needs and demands, such as those set out in in the Intergenerational Reports, typically ignore the impact and distribution of these capital gains. That is a serious omission, but the unfinished work of the IGRs can be completed by projecting wealth and capital gains forward 40 years. Hence, if we take the simple start and end points of the ABS data for household wealth and income in Australia, we find that wealth has increased by a compound 7.3% p.a. between September 1989 and March 2023, compared with household income which increased 5.4% p.a. over the same long period.[1] If those rates were to continue for the next 40 years, the *ratio of wealth to income* (as in GDP data) in Australia will increase from 7.5 times to 15.6 by the 2060's. In other words, the increase in privately held wealth will be more that twice the increase in national income. Capital gains will, on average, have grown to be 1.1 times household income as it is measured in the IGR. If so, the income flow that the offficial *IGR* omits will be even bigger that what it includes.

A compounding factor is that the distribution of the wealth among households is even more concentrated than the distribution of income. ABS data shows that the top quintile (20%) of households has 41.6% of total equivalised income,[2] while the top quintile of wealth owners has 62.3% of the wealth (ABS 2021). Also, the ABS gives Gini coefficient estimates for income and wealth. The Gini, named after an Italian statistician, is a measure of inequality which falls within the range of zero

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[1] First author's calculations based on ABS (2023a).

[2] The ABS adjusts household income for household size and composition to produce a series for equivalised income.

to one: the higher its value, the greater the inequality. For the 2017-18 financial year, the ABS gives Gini estimates of 0.439 for gross household income and 0.621 for household net worth. Again, this indicates a much higher concentration of wealth than income. Interestingly, the calculations suggest a small decline in the wealth Gini following the onset of the COVID pandemic, dipping to a value of 0.611 (ABS 2022). The longer-term trend is for the Gini for income inequality to become marginally greater over time, while the Gini for wealth inequality has risen more substantially.

Just as wealth holdings are more unequal than incomes, so too are the capital gains on that wealth; and those have been very large in recent years (Richardson 2021). Even if wealth inequality grew no worse over time, the *growth* in wealth would mean that capital gains on wealth make the distribution of income much more unequal than is suggested by the ABS data.[3] Moreover, the distribution of income plus capital gains is getting more unequal as capital gains get larger. This is evident when appropriate adjustments are made to the ABS data, as shown in an earlier paper (Richardson 2021). That research showed that the top 20% of households had ordinary gross income (excluding capital gains) 3.4 times larger than the bottom 20%. However, for capital gains the equivalent ratio was 108.4 times. Capital gains boosted the income of the bottom 20% of households by 4.4%; but boosted the incomes of the top 20% by a massive 144%. Those figures show how recognising capital gains on the unequal wealth holdings reveals a very much more uneven income distribution than is suggested by the traditional measure of income that excludes capital gains.

The broader implications of what happens to societies were explored by Thomas Piketty in his big smash-hit book, *Capital in the Twenty-First Century* (2014). This showed that, if the increase in a society's wealth exceeds the growth in its national income, the wealth becomes more concentrated and family dynasties tend to loom increasingly large relative to the size of the economy. That seems to be happening in Australia; and the process gets a turbo boost when capital gains arising from wealth are added into the picture.

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[3] This is something the Productivity Commission (2018) fails to grasp. Measures of relative wealth such as the ratio of the top 10th to the bottom 90% do not acknowledge the massive increases in wealth especially at the top end.

Some important inferences may be drawn from these statistical observations. First, wealth and capital gains are even more important than income, as usually understood, when considering the nature and sources of economic and social inequality. Second, achieving a more sustainable and equitable set of tax arrangements therefore requires putting a strong focus on wealth and capital gains. Third, both wealth and capital gains need to be a focal points for tax reform because capital gains operate as both cause and effect of increasing inequality in the distribution of wealth.

Equity requires fully taxing capital gains

A fundamental principle of the Australian tax system is that similar income should be taxed the same, no matter what its source. Public finance textbooks have also stressed for generations that fiscal policy discussions should be using a comprehensive definition of income. The tax review chaired by Ken Henry referred to the pure definition of income under which income represents the increase in a person's stock of assets in a period, plus their consumption in the period. Most discussions refer to the Haig-Simons (H-S) income concept, simply defined as 'consumption plus changes in net worth' (Staff of the Joint Committee on Taxation 2012).[4] Whereas tax is usually only on realised capital gains, the H-S definition includes capital gains on an accrual basis (Armour, Burkhauser and Larrimore 2013). This reflects the view that capital gains are a component in income, whether or not they are actually realised as income at the time.

Should these capital gains be taxed? Applying the preceding argument, the answer is clearly yes, ideally as they accrue. Equity considerations reinforce this case, because the people who have large amounts of wealth are usually the same people who get most of the capital gains. A further case can also be made for fully taxing capital gains to stem tax avoidance, since a good deal of avoidance currently takes place by disguising other incomes as capital gains, thereby paying lesser or zero tax. Finally, there is the ethical proposition that capital gains are unearned income that arise from changes in asset values determined by market forces, so they should not be taxed more lightly than income from wages which arise from the efforts of productive labour.

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[4] The references here are to economists, Robert Haig (1921) and Henry Simons (1938).

The taxation of capital gains in Australia

When the Hawke Government introduced a capital gains tax on assets acquired after September 1985, it was argued that 'because real capital gains represent an increase in purchasing power similar to real increases in wages, salaries, interest or dividends, they should be included in any comprehensive definition of income' (Australian Government 1985: 77). This was a step towards accepting the preceding arguments. Paul Keating, the federal Treasurer at the time, recurrently said that capital gains taxation was needed because otherwise income from the ownership of capital would be treated more favourably than income from labour ('hard yakka'). In practice, however, capital gains tax (CGT) is something added to the tax system almost as an afterthought and only to the extent of including some realised capital gains - and, even then, there are large concessions[5]. The Howard government inflicted a king-hit by slashing the rate of tax on capital gains to half its previous rate, creating the 'discounted' CGT rate which, ever since then, has benefited the owners of capital relative to people earning their incomes mainly from waged work.

According to the last budget, the Treasury expects to raise CGT revenue of $23.2 billion in the fiscal year 2023-24 (Australian Government 2023b). This is a small proportion of total household capital gains, currently close to a trillion dollars.[6] Since a good deal of the CGT is paid by corporations and superannuation funds, the actual tax rate paid overall by households in receipt of capital gains must be lower still. Part of the reason why the CGT revenue is so low in practice is the various concessions that apply. The published statement of 'tax expenditures' (Australian Government 2023c) provides an estimate of the value of these various concessions. For example, the family home is exempt from CGT; and loss of potential government tax revenue from that exemption alone is estimated at $47

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[5] Some technical considerations arise in defining capital gains, especially for taxation purposes. If you buy and sell anything within 12 months, then any resulting income is treated as a trading profit which should be declared as income and is taxed at the taxpayer's ordinary tax rate. In ordinary discourse, a trading profit of this sort might well be described as a capital gain. Rather, capital gains generally refers to the 'profit' made on selling an item that has been held for a year or more. The distinction seems to be a pragmatic way of distinguishing between income produced by second-hand dealers and other traders as compared with investors looking for long term benefits from holding property, shares, art, and other assets.

[6] First author's calculations based on ABS (2023a).

billion.[7] The other main reason the CGT revenue is so low is that it only applies only when the asset is sold. Clearly, huge additional revenue could be generated by more comprehensive and effective capital gains taxation.

A tax on wealth?

Should stocks of wealth be taxed too? In other words, should tax reform aiming to make the sources of revenue more potent, more equitable and better geared to people's ability to pay be based on total wealth holdings, or only to the increments that come through capital gains? Any review of the tax system could be expected to address this key issue.

When the tax review headed by Ken Henry did so, it argued that capital should be taxed only lightly (Australian Government 2010). This evidently reflected the quaint view that wealth is accumulated by hard-working people who are thrifty, saving for their retirement and other contingencies. Many do, of course, but the official Australian data shows that household savings coming from wage incomes are a tiny part the growth in wealth. As traditionally defined, household saving accounted for only 10.4% of the increase in household wealth from December 1989 to March 2023.[8] Moreover, household saving, as traditionally defined, is only 19.4% of the total savings in Australia[9], with the rest being largely due to the corporate sector, the banking system, and government businesses. So, at the most, the view expressed in the Henry report can explain perhaps 10.4% of the 19.4% – or just 2% of total Australian savings. Since, of the present wealth, under 2% is likely to reflect savings that originated out of pay-packets, Henry was plainly wrong in positing this as a justification for only lightly taxing capital and income from capital. Note too that a wealth tax with a relatively high threshold, say 15 times annual income for someone on average weekly earnings, would not touch any wealth that ordinary income earners in Australia could accumulate without getting huge windfalls from capital gains, inheritances, lottery prizes, and the like.

[7] That figure is due to the family home being exempt from ordinary capital gains tax that applies to individuals as well as the 50% discount usually available to individuals.

[8] First author's calculations based on ABS (2023a).

[9] Calculations based on ABS (2023b). Savings for the whole economy is defined as GDP less total consumption.

Internationally, more general and evidence-based arguments for substantial wealth taxation have been gaining traction. Thomas Piketty argues that, to address the creeping inequality throughout the world, we need 'new tools, adapted to today's challenges' (Piketty 2014); and that the ideal is a global tax on capital or wealth.

The OECD (2018) report on wealth taxes should be seen in that light. The report documents existing approaches to taxing wealth, while also presenting arguments for such a tax and tightening up existing tax arrangements. The OECD reinforces the importance of wealth taxes for tackling the growing inequality. Recognising that 'wealth inequality is far greater than income inequality' and getting worse, it argues that 'wealth accumulation operates in a self-reinforcing way and is likely to increase in the absence of taxation'. Currently, high earners are able to save and invest more which means accumulating more wealth. Wealthy taxpayers are also in a better position to invest in riskier assets which will tend to generate higher returns. That may be due to their 'financial expertise and more lucrative investment opportunities' as well as their ability to obtain loans, enabling more investment and the accumulation of more wealth. The OECD also mentions that wealth may confer more economic and political power which helps the rich get even richer. Citing Meade (1978), the OECD report points out that wealth may bestow social status, power, greater opportunities, satisfaction, or provide an insurance value against unexpected future needs.

Wealth taxation in Australia

In some respects, a wealth tax is less distorting than a capital gains tax based on *realised* asset values, because the latter provides an incentive not to realise the capital gains. A capital gains tax can 'lock-in' particular assets as their owners do not want to trigger CGT by selling those assets. Wealth taxes do not incentivise the lock in of any capital gains. Nor are they affected by taxpayers' tax planning strategies. A tax on wealth cannot be avoided by changing the composition of that wealth. Moreover, because the total value of wealth holdings is so huge – and growing at a rapid rate – only a very low rate of tax is needed for generating substantial revenue.

Strong arguments like these for taxing wealth may seem like 'voices in the wilderness' locally because Australia does not have a national tax on wealth or net worth. This is not to say that wealth is wholly untaxed,

because local government rates and land taxes[10] are widely applied. Local government rates are payable annually, based on property values[11], and some state taxes are payable on specific types of property. Land tax has its own distinctive rationale, stemming substantively from the observation that land is a natural resource, the privatisation of which has created distorted outcomes and unjustifiable inequities (Stilwell and Jordan 2004). Seen from this perspective, capturing site rentals through land taxation is integral to creating more equitable society. Significantly though, Australian evidence shows that the share of land in a household's net wealth falls as the household's net worth increases. In 2018-19, the second quintile of wealth holders held 88% of their net worth as land (including the buildings on that land) while the top quintile held only 39% of their wealth in that form (ABS 2021).

Estate duty payable on deceased estates is another form that wealth taxation may take, albeit having the obvious limitation from a government revenue perspective that the tax applies only once per lifetime. Importantly though, it does not differentiate between the different forms in which wealth is held, because it is the total value of assets (in conjunction with the set tax threshold level) that determines the tax payable. Estate taxes of this type used to exist in Australia at both the state and federal levels (Reinhardt and Steel 2006). In 1977, however, a 'race to the bottom' began among State governments when Queensland's estate duty was abolished by its Premier, Joh Bjelke-Petersen; and then the other State Premiers and Prime Minister Malcolm Fraser followed suit. However, the issue isn't necessarily dead and buried (no pun intended). Followed the publication of a report by the Productivity Commission (2021) on the huge magnitude of inheritances in Australia, an editorial in the *Australian Financial Review* in 2021 called for a 'modest inheritance tax', arguing that the generous tax concessions for superannuation as well as the booming prices of shares and real estate had enriched the 'baby boomer' generation; and an inheritance tax would be a way for the government to get some of the benefit back. As the former internationally renowned expert on economic inequality, Tony Atkinson (2015), had previously pointed out in relation to

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[10] The current land tax rates in various states and territories are summarised in PwC (2021).

[11] Local government rates are sometimes based on estimated land values alone and sometimes on 'improved' values that include the buildings on the land too. One view is that these could almost be regarded, not as a tax but as a fee-for-service which pays for rubbish collection and sundry other services (Australian Local Government Association 2021)

the increasing inequality due to capital gains, a large amount of capital gains accrued as a result of tax avoidance and evasion with income disguised as capital gain. Indeed, much of the accumulated wealth in Australia derives from past income that has never been taxed or only taxed lightly at a 'discounted' rate.

An earlier research paper for The Australia Institute (Richardson 2016) argued that estate duties have a major role to play in addressing the increasing inequalities in Australia. Estate or inheritance taxes are usually said to have a distinctive advantage over other forms of tax in that there is no incentive effect on the person whose wealth is to be distributed nor to the beneficiaries of a will. As one observer put it: 'the tax liability comes at a point where those who did have the money no longer need it, and those who are about to get the money have managed quite well so far without it' (Truman 2006).

Conclusion

The prospect of serious tax reform being undertaken in this term (or probably the next term) of the Labor government are not strong. Some welcome initiatives have already been taken, as noted with approval earlier in this article. Perhaps they portend more 'courageous' interventions later. In the meanwhile, however, comprehensive reforms are being set aside. The reasons for this caution are largely political, and understandably so. Significant reforms create both winners and losers; and the latter can be whipped up by unscrupulous opponents of reform into strident powerful impediments to progressive change.[12] Indeed, even people who stand to gain from reforms which would create a more fair and cohesive society can be enlisted in the oppositional chorus, as recent experiences in other policy areas (most notably the Voice referendum) have shown. These are sound political reasons to tread lightly in the short term.

However, as the political economist J.K. Galbraith was wont to say, it is 'the march of circumstances' that is ultimately decisive. The pressures to build a revenue base to match the society's growing needs for a heathy public sector and for vigorous action on climate change are relentless,

[12] Labor's review of its own 2019 election campaign referred to the Coalition's 'subterranean' distortions of its reform, including the baseless claim that it would introduce a 'death tax' (Emerson and Weatherill 2019).

pushing against the limits that politicians and their policy advisers are unwilling to traverse. Concurrently, Australian society is becoming steadily more unequal, both in the distribution of income and, even more so, in the distribution of accumulated wealth. On reasonable assumptions, capital gains will on average outpace conventional measures of income in 40 years' time unless something is done to address that trend.

The existing tax arrangements look less and less fit for purpose, either for meeting the fiscal demands placed on government or for reining in the growing inequalities. Alternative tax possibilities exist, such as creating effective taxation of capital gains by removing the existing CGT 'discount' and other exemptions; introducing an annual wealth tax on accumulated asset holdings above a high threshold; or estate taxes that treat wealth transfers by the wealthy as taxable income to the recipients. If Labor in government cannot or won't address this constellation of issues, who will?

Rethinking the case for change needs a paradigm shift. Part of fhe neoliberal mindset includes the view that the wealthy should be left alone to pursue their interests in business and so add to national output and employment: hence the tax and subsidy arrangements to encourage the rich to accumulate and invest yet more capital. The view from the executive suite in the federal Treasury is only slightly more sophisticated, seeing wealth arising from people finding work and saving for their retirement out of their post-tax incomes; all to be encouraged by having low tax rates. These dominant ideologies are smoke screens concealing more deeply troublesome processes whereby people who make little productive contribution get a disproportionate share of the income while those with more visible incomes, such as wage and salary earners, pick up the tab.

The management of political processes for creating the paradigm shift is therefore crucial. Seen in a positive light, the current Labor government has positive attributes and potential. The Prime Minister has a wealth of experience and expertise in identifying and pursuing the 'politics of the possible'. His Cabinet comprises the most impressive array of talent seen on those parliamentary benches for many a year. If Labor attains a second term of office, hopefully a third, we might anticipate the establishment of a process (roadmap?) for considering the big issues of tax reform – perhaps including a tax summit of experts and key stakeholders, preceded by an inquiry into the causes and consequences of the growing economic inequalities in Australian society.

We might also anticipate tax reform proposals being framed to get public support, using 'hypothecated' arrangements linking taxes with spending. A message that 'tax X will pay for provision of the much-needed public good Y' reliably fails to impress public finance experts, but it can help the public to see that otherwise unpalatable medicine is well worth taking.

Of such stuff is progress made in the political realm. Or not…

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FOREIGN POLICY AND SECURITY

Andrew Mack

While Australia's policy on foreign affairs and national security is always complex and many-faceted, it has come to be dominated by concerns about the rivalry between the political and economic super-powers. The US-China relationship is now at the centre of foreign policy and security considerations. How the relationship is understood has a major bearing on Australian governments' foreign affairs, defence, national security and trade relations decisions. The issue is particularly important at present because the position adopted by the Federal Labor government has crucial implications across all these policy areas.

This article explores how the Australian government's judgements about the perceived US-China conflict have shaped Australia's foreign policy; and it uses this analysis to consider the efficacy and appropriateness of the strategic foreign policy that the Albanese government is now pursuing. It questions the key assumptions that underpin the prevailing inclination to perceive the massive economic growth of China as portending broader Chinese regional strategic ambitions. In particular, it questions the presumption that China should or could be 'contained' by Australia forging stronger defence ties with the USA – most evident in the AUKUS arrangement.

Instead, it emphasises the need to recognise and manage Australia's engagement with the essential economic interdependencies between the Chinese and US economies. A case study of one aspect of Australia's minerals and energy export trade is used to illustrate these interdependencies. Drawing lessons from these observations, the article concludes with some pointers to an alternative approach to foreign policy.

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Global interdependence

As Andrew Carr (2014) has argued, Australia's world market engagement has generated strong national economic growth and high standards of living and enabled the country to achieve 'middle-power' status.[1] There are, of course, major risks associated with this engagement, such as global financial crashes, supply-chain breakdowns, climate change and war. Interdependence always has additional stresses where there are major imbalances between the participants, and particularly when those power imbalances are undergoing substantial change. Change is a key element in the current situation because China's economic expansion during recent decades, strongly supported by Australia's minerals and energy supplies, has overtaken the US. This change has encouraged the fear that China now presents a military, as well as an economic threat. Successive Australian Federal governments have responded to these fears by instituting foreign economic and strategic policies that attempt to 'balance economic and security interests' (Blaxland 2017: 21).

Current 'balancing' policies need to be critically reconsidered as they are unlikely to accomplish the objective of achieving long-term political security and economic stability. This is because they are based on false assumptions about the nature of the 'China threat'. Even more importantly, the focus on China as a military threat distracts from the implications of what is, more fundamentally, an economic symbiosis between the US and China, in which Australia is embedded.

Australia's East Asian market engagement

Australia's engagement with East Asian markets has generated massive wealth, largely through the export of mineral and energy resources. These exports were crucial in supporting the development of the high-performing East Asian industrial economies. The greatest opportunities for Australian minerals and energy exporters, however, arose from the 1980s integration of China and Indochina's communist economies into world markets. Whilst Australia gained substantial economic benefit from resource

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[1] Note the importance of an appreciation that Australia's 'opening up' to global markets has been associated with systemic inequalities, maldistribution of national wealth and environmental destruction.

exports to all East Asian high-performing economies, the China market has been the most significant, with export sales revenue reaching a record $102.5 billion during the first half of 2023 (Uren 2023).

Concurrently, whilst these record sales have massively advantaged the Australian economy, it seems that Australian strategic policies have been increasingly driven by a belief that Chinese regional economic expansionism threatens Australia's political and economic security.[2] This view was strongly held long before Labor came to office, but the new government did nothing during its first year in office to challenge this belief. Prime Minister Albanese has expressed his concern over 'China's growing assertiveness in our region' (Albanese 2022). This was the stated justification for the government's allocation of $A368 billion towards a military security partnership between the UK, the USA and Australia – AUKUS.[3] As argued elsewhere, such a strategic foreign policy direction was misguided as it was based on the assumption that China represents a *military* threat to Australia, whereas it represents an *economic* threat to the global political and economic dominance of the USA (Mack 2021).

There can be no doubt that China's economic rise *does* represent a threat to US economic dominance. China's GDP in PPP-adjusted terms is currently $US 30.3 trillion, whilst the USA's is $US 25.5 trillion (Silver 2023). As well as its greater economic might, a further challenge lies in China's vastly expanded regional infrastructure project, the Belt and Road Initiative (BRI), and technology projects such as the Digital Silk Road and Strategic Economic Partnerships (Menadue 2023).

However, the futility of employing a simplistic economic/security 'balancing' strategy is evident in the context of US-China rivalry over economic power. The prime example of this is in the power of trade where China's trade represents a more fundamental threat to the US dominant order (and Australia's role in that order) than its military might. Thus, when criticising the AUKUS agreement to supply Australia with nuclear-powered submarines, Mahbubami considered that China's economic trade

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[2] When looking to the future, a strong majority (75%) of Australians continue to believe it is 'very' or 'somewhat' likely that China will become a military threat to Australia in the next 20 years – unchanged from 2022 (75%) and significantly higher than in 2018 (45%) (Lowy Institute 2023)

[3] The Trilateral Security Partnership Between Australia, U.K. and U.S. (AUKUS) enables 'unconstrained access for all types of US military aircraft and vessels in Australia'. This allows the US to 'rotate through Australia [...] the establishment of facilities to support US high-end warfighting [...] and combined military operations in the region' (Patience 2021).

will be the superior long-run force. He argues that 'submarines are stealthy, but trade is stealthier. Both generate security – the former by deterrence, the latter by interdependence. But the kind of security created by trade lasts longer' (2022).

China's capacity to supersede US economic influence is also clearly evident with its trade and investment with ASEAN countries. As Mahbubami (2022) notes, in 2000, total US trade with ASEAN was US$135 billion, more than three times China's trade of US$40 billion. By 2020, however, China's trade of US$685 billion was almost double the US trade of US$362 billion. It is also evident in China's infrastructure support for ASEAN countries, with 'High speed railways […] being built by China in Indonesia, Laos, Malaysia and Thailand' (Mahbubami 2022). These examples indicate the profound importance of economic power and its influential role in ensuring regional security. It is inconceivable that Australia's current strategic foreign policy approach could challenge China's enormous economic power.

Reassessing the perception of US-China tensions

The difficulties with the 'balancing' strategic approach are also evident in relation to Australia's strategic support for the USA's 'de-risking' agenda.[4] The USA is increasingly attempting to reduce its economic engagement with the Chinese economy. Australia's support for this 'de-risking' strategy means that Australian economic and strategic policy-makers will have to decide: firstly, how to most effectively manage Australia's engagement with the symbiosis between the US and China's economies and, secondly, whether it is in Australia's interests to continue to support the US-led global market liberalisation project.

A powerful symbiosis has developed between the economies of the USA and China. In the early stages of this relationship, China provided cheap labour and manufacturing capabilities, whilst the United States provided technology and capital. It was a symbiosis driven by the massive flow of US financial capital and manufacturing investment into China from the 1980s. Danzig (2020) describes the developing economic relationship as

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[4] 'De-risking' is 'the process of managing the vulnerabilities generated by an interdependent world': European Commission President, Ursula von der Leyen (Farrell and Newman 2023).

'like conjoined twins whose circulatory systems cannot be separated, the United States and China are tied together'.

In the early development of this symbiosis, the corporate imperative for financial gain outweighed security considerations, as the relationship then was then perceived as representing a low *security risk.* Thus, as Friedman facetiously contends, 'When China sold us "shallow goods," we didn't care whether its government was authoritarian, libertarian or vegetarian' (Friedman 2021). However, US fears have arisen since the PRC regime has achieved success expanding6i its more strategic sectors of advanced manufacturing.

Thus, the nature of this relationship has changed as strategic concerns have led the two countries to impose various protective barriers. The USA has now moved to 'de-risk' investment from security-related components of the economic relation by imposing trade constraints on China's production of strategically crucial manufactures. The Chinese government has countered by expanding its crucial strategic important sector of rare earth and critical mineral processing and shifting investment into the production of sophisticated communication equipment. This has enabled China to dominate the high-end technology sector, especially through the support for revolutionary technical advances in artificial intelligence, quantum computing and high-end semi-conductors (Heseltine 2023). Chinese corporate success in this sector is alleged to have resulted from a 'relentless focus on acquiring technological intelligence, either overtly or covertly, from the West' (Friedman 2021).

As the USA moves to 'de-risk' from their economic relationship with China, it faces difficulties in extracting its economy from the symbiotic process. US National Security Adviser Jake Sullivan explains these difficulties in the following terms: 'officials cannot easily disentangle trade and commerce from security when US markets are intertwined with those of adversaries, consumer electronics are readily weaponized, and beefed-up graphics chips are the engines of military artificial intelligence' (Farrell and Newman 2023).

Whilst the US administration is aware of the threats to the global economy if the US-China economic interdependence were to be undermined by the 'de-risking' agenda, it has nevertheless introduced a raft of 'protectionist' security policies that could cause such a systemic disruption. These

include the '*CHIPS Act*' [5] subsidies and state support for US industry' semi-conductor capabilities; restrictions on sales of advanced semiconductors; export controls to prevent China's access to high-end chips; and tariffs on China's steel and aluminium exports (Emerson 2023).

The *CHIPS Act* has the strategic aim of restricting exports of US and Taiwanese semiconductors, advanced technological components and crucial raw materials - especially from Australia - to China. The Biden Administration is also imposing further restrictions on US companies investing in China's high-tech sectors. Clearly, the refusal to supply advanced chips to China constrains China's capacity to achieve its aim of dominant global expertise in the artificial intelligence and advanced military technology spheres.

A further complexity arising from Australia's strategic support for the US 'de-risking' strategy concerns the efficacy and future of the Washington Consensus international market liberalisation system.[6] Jake Sullivan argues that this system, whilst engendering structural changes in developed countries' economies since the mid-1980s, has been unsuccessful in assuring durable economic growth (Farrell and Newman 2023). He contends that these policies have 'hollowed out US industry, welcomed a rising adversary (China) into free-trade arrangements, and riddled global supply chains with critical security vulnerabilities'. Moreover, he argues that 'only a considerably reformed economic security state will be suited to a world that is both highly interdependent and filled with security risks' (Farrell and Newman 2023).

It is absurd to think that Australia's current strategic foreign policies could contribute to the unravelling of the symbiosis between the two superpowers' capitalist economies. It is similarly absurd to believe that current policies could address the threats implicit in the tendency towards economic nationalism implicit in a 'de-linking' from the highly interdependent international market system. Australian foreign policy makers will have to account for the way that US-Australian 'de-risking' programs could threaten the viability of the WTO 'rules-based' international economic order.

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[5] *The CHIPS and Science Act* – US federal statute enacted on August 9, 2022.

[6] The term 'Washington Consensus' encompasses the ten goals of all neoliberal institutions such as the IMF and World Bank: fiscal discipline, public expenditure priorities, tax reform, financial liberalization, competitive exchange rates, trade liberalization, foreign direct investment, privatisation, deregulation, and property rights.

Lithium production and Australian foreign policy

A case study can be helpful in illuminating how the production of increasingly important minerals intersects with development of the government's strategic foreign policies. As discussed above, Australia's minerals and energy exports have been important in the development of the US-China symbiosis. However, with Australia sharing US concerns about the strategic threats of this economic interrelationship, it has moved to supplement the USA's 'de-risking' policies in its international trade relations. Thus, protective constraints have been imposed on Australia's Rare Earth mineral export sector and may be extended to other sectors as US security intentions dictate.

Australia holds a strong bargaining position in the international market for critical minerals such as copper, lithium, nickel and cobalt. These are vital for low-emission technologies such as electric vehicles and clean energy equipment. Australia has 29% of the world's proven lithium reserves; and Australian mines provide more than 50% of the global lithium supplies for re-chargeable battery production (Bartholomeusz 2023).

Whilst Australia holds the greatest supplies of lithium, more than 90% of its exports of this commodity are processed in China (Bartholomeusz 2023). China also dominates the processing of other Australian rare minerals. Resources analyst and director of Climate Energy Finance, Tim Buckley, affirms that 'China is not just the world's No.1 in rare earths processing. In some cases, there is no one else' (Bartholomeusz 2023).

Not surprisingly, the USA is vitally interested in ensuring access to Australia's vast holdings of rare earths and critical minerals – elements such as copper, lithium, nickel and cobalt. Australia's government's participation in the US 'green energy' *Inflation Reduction Act* (*IRA*) project is a vital part of Australia's strategic alliance with the USA, allowing the Pentagon to control the supply of critical minerals deemed vital for the production of US military goods (Sercombe 2023). The processed commodities are an essential component of electrical conduits, batteries, magnets, and circuitry of electric vehicles, defence applications and modern energy networks.

It is evident that Australia has sought to expand its national security ties by allying with the USA to reduce China's dominance of the critical minerals extracting and processing sector. To this end, the Australian government has increased its financial support for value-adding

investments in Australian critical mineral projects to $6 billion (Albanese 2023). Whilst Buckley contends that this represents only a fraction of the US 'unprecedented' spending of US $US1 trillion on the IRA industrial and energy project (2023), Australia's contribution represents a clear commitment to the USA's overall 'China delinking' of strategically important industries from the symbiotic relationship. By the same token, Australian Treasurer, Jim Chalmers, decided to block China's Yuxiao Fund from increasing its investment in Australian rare-earth miner Northern Minerals, stating: 'we'll need to be more assertive about encouraging investment that clearly aligns with our national interest in the longer term' (Bagshaw 2023).

Conclusion

This article has examined the political and economic risks to Australia arising from conflictual relations between the US and China. It points to the flawed nature of Australia's foreign economic and strategic policy approach, contending that this approach is unlikely to succeed in its aim to achieve long-term security and economic stability. The determination to confront the perceived 'China threat' by military means is shown to be misguided and driven by a false notion that China poses a threat to Australia's national security. In practice, China's foreign policy is driven by economic competition with the US as the dominant political and economic hegemon.

The case study of Australia's S and critical mineral exports illustrates the implications of this competition, and the danger to both the USA and to Australia of not recognising the situation of potentially mutual gain from a more globally cooperative stance. It is even more damaging to both national security and international relations that the US-China strategic competitive struggle has translated into an Australian determination to provide essential resources to the USA to support its defence industries.

Australian foreign policy-makers' preoccupation with supporting US strategic ambitions inhibits the adoption of a more beneficial alternative that the Australian government's foreign policy could take – developing a more independent position in relation to the US-China power struggle, asserting Australia's right to national political and economic sovereignty and right to pursue closer political economic ties with other nations in the region. This alternative would recognise that Australia's economic and

security interests are best served by accepting the inevitability of China's rise as a component of the structure and process of the international political and economic order. The need for Australia to supply the resources necessary to power the East Asia developmentalist-state system would then be seen as in the national interest and, more generally, in the interests of peace and stability in the region.

This global political economic perspective, recognising both the importance of economic interdependencies and the rapidly changing power relations, indicates the need for the Albanese government to initiate a major reconsideration of its foreign and security policy. In particular, the commitment to the AUKUS deal, which Labor was originally 'wedged' into supporting because of the wish to prevent defence policy becoming a major issue in the 2022 election, needs to be re-thought. Of course, having already become deeply entrenched in this policy commitment, the political reality is that it cannot be quickly abandoned. However, rather than continuing with its further strengthening, preparations could be made for a feasible exit strategy down the track that is consistent with further changes in international economic relations. That would open up more positive possibilities for the Australian government to develop a more cooperative, regionally-based and independent foreign and security strategy.

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AUKUS AND JOBS

Al Rainnie

Because AUKUS is supported by both major political parties (although not the Greens), it is not so vulnerable to political instability as some other big, divisive issues. In the broader society, however, the AUKUS deal has faced far from universal acclaim. On the 'cheer-squad' side, the Australian Industry Group has been effusive in its support, arguing that it is a multi-generational project that has the potential to benefit millions of Australians for decades to come (Damante 2023). But the critics have raised a wide range of concerns. For example, UNSW Professor of International and Political Studies, Clinton Fernandes (2023: 23), argues that AUKUS is not an investment in Australian nation-building but in the materials, products and services that enable the warfighting capabilities of the United States (Fernandes 2023: 25).

Of course, the question of whether AUKUS reduces or increases Australia's long-term security is fundamental. The view of *The Economist* (2023) that 'Australia is becoming America's military launchpad in Asia' is hardly reassuring in this respect. Reflecting on the social as well as defence implications, the introduction to the special section on AUKUS in *Arena* (2023: 19) raised even broader concerns, arguing that:

> AUKUS will deliver a new regime of the everyday in Australia. What we can call, with some caution, an Australian way of life will be recomposed by the integration of our defence with the US military, with the demands of the scientific-military-industrial complex and the aggressive posture that military preparation brings. The shift to 'forward defence'; nuclear technologies; the reshaping of northern Australia as a US garrison; military-led economic and industrial policy: this cannot but reshape who we are and relations between us.

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The eye-wateringly expensive nature of the deal is also, quite properly, a focus of deep disquiet. The costs of the submarine component of AUKUS are estimated at $368bn through to the 2040s; and the total cost also includes $3bn to be transferred to the USA to help with its current domestic submarine production difficulties (Creighton 2023).

This article has a narrower focus, examining the likely impacts of the project on employment. Although less far-reaching than the strategic defence and opportunity cost aspects, the job-creation aspect warrants consideration because it is a factor that politicians emphasise to make the project politically saleable to the electorate.

Job-creation is a national consideration, of course, but it is regarded as especially important in the Port Adelaide/Osborne locality where whatever production of submarines occurs will be focussed. The area needs good quality jobs. The expectations of local people also experienced a hit from the effects of the Morrison government's contentious and abrupt cancellation of the former French submarine contract. But are the currently raised local expectations likely to be matched by secure, ongoing good quality jobs, and at what cost?

High hopes or false expectations?

Projects for defence spending tend to be accompanied by dramatic claims wrapped up in rhetoric of 'jobs, growth and regional development'. Extreme examples abound in this case. 'AUKUS alliance: New jobs potential is 'astronomical', trumpeted *The Australian* on 16 September, 2021. Pat Conroy, Minister for Defence Industry in the Albanese government, was no less hyperbolic in his claim that: 'This is the greatest industrial undertaking ever in Australia. It will be transformative for South Australian industry' (OPM 2023).

Anthony Albanese has also said, when speaking in the UK in 2023, that 'I see this as being very similar to what the car industry provided for Australia in the post war period'. It is an awkward comparison. Although employment in the Australian car industry dropped by around 80,000 between 1973 and 1980, it still employed around 45,000 in 2015. At best, AUKUS is forecast to create around 20,000 jobs over the 25-30 years of the project, with South Australia and Western Australia as the major beneficiaries (Tillett and McIlroy 2023).

A government press release in March 2023 claimed that the jobs in South Australia arising from the AUKUS deal would be fairly evenly divided between 4,000 workers employed to design and build the infrastructure at Osborne (Port Adelaide) and a further 4,000 to 5,500 to build the actual submarines. The AMWU sees around 5,000 workers being needed to build, maintain and repair the submarines when the build is scheduled to start in the 2040s. Spread over more than a quarter of a century, this is not hugely impressive.

Furthermore, as John Quiggin (2023) pointed out, at current estimates, this works out at roughly $18 million per job.

Then there is the inherent uncertainty about the number of submarines likely to be built and/or serviced. It is still unclear as to how many Virginia class submarines will be purchased second hand to fill the gap between the Collins class and the proposed SSN-AUKUS. The number of SSKN-AUKUS to be constructed appears to have declined from eight to five and then to three. There are issues already with the Virginia Class submarines in the US: close to 40% are reported to be out of service and undergoing repairs. The shipyards also face a growing workforce recruitment crisis. Key components have worn out well before their life expectancy and there is a spares shortage (Hardaker 2023).

The US has repeatedly raised doubts that it has enough of its own submarine-building capability to sustain its own fleet – let alone replace any operational vessels sold to Australia (Seidel 2023). An expert report from the US Congressional Research Service (CRS) questions the benefits and risks of transferring US submarine technology and naval nuclear propulsion technology to Australia for a project that envisions building as few as three AUKUS-SSN nuclear powered, attack class submarines (Hardaker 2023). Republicans argue that selling even three Virginia Class subs to Australia would unacceptably weaken the US fleet (Creighton 2023).

Furthermore, it is also unclear what impact the massive expenditure on the AUKUS initiative is going to have on current naval shipbuilding contracts in Osborne. There are already delays on the Hunter Class frigates. Seidel (2023) has also drawn attention to the fact that BAE Systems, contracted to produce both the submarines and the frigates, had been referred to the Australian National Anti-Corruption Commission (NACC) over irregularities over a contract to buy frigates from the contractor.

Hoskins (2023) reported for the BBC that the announcement of the contract confirmed the participation of BAE Systems, Rolls Royce and Babcock International. Moreover, 'Other major UK defence contractors are also getting a boost from the AUKUS deal'. However, as Seidel (2023) pointed out, Australia was nowhere to be seen in the crucial design and development phase.

A Barrow-load of jobs?

Further consideration of the job-creating potential of the AUKUS contract can also usefully take account of the experience of Barrow-in-Furness, the UK base for the AUKUS submarine operations, in northwest England. Barrow has been a major base for submarine construction in the UK, on and off, for 60 years or more. BAE Submarines, part of the major British based arms, security and aerospace multinational, has a large operation already in place and the town. Just like in South Australia, local hopes have been raised that the AUKUS contract will generate lots of local jobs.

It was when visiting Barrow in 2023, that Albanese drew the parallel with the Australian car industry, saying that it not only provided jobs and security for communities for decades, but that there were indirect spin-offs for other industries as well. At the same event in Barrow, Pat Conroy also talked about the significant opportunities in the supply chains, not only of Australia, but also the UK and the US. However, examination of the history of submarine production in Barrow and its effects on the locality raises some troubling questions.

In 2023, the *Financial Times* claimed that AUKUS would provide a jobs bonanza for both Osborne and Barrow-in-Furness (Pfeffer and Sevastopulo 2023). However, in reporting the Barrow case, the article provided the first hint that building submarines has not been an unalloyed positive for the Cumbrian town. The prospect of steady long-term investment promised a 'reprieve from the "feast or famine" cycle that has historically dogged submarine manufacturing in the UK'. The town itself has experienced long term steady population decline, mostly due to negative net migration. Barrow in 2020 was the 146th non-metropolitan district in England (of the 181 total) when ranked by the value of local production.

Furthermore, as former senior Labor politican Bob Carr has reported (Carr 2023), Barrow has struggled to deliver both the Astute and Dreadnought

class submarines before the Virginia transpires. On top of this, Carr argues, there is no precedent for building a submarine hull in one country, installing another country's technology, and then assembling in a third country that has no nuclear expertise.

Former Director of the Australian Strategic Policy Institute, Michael Shoebridge (2023), argues that, in Barrow, the nuclear subs programme provides steady employment for only a small number of people. Moreover:

> While it's a lovely town, Barrow-in-Furness shows that the nuclear subs do not build a vibrant high-technology economy outside the walls of the defence industry [...] Those spin-offs the Prime Minister hopes for are not much in evidence.

In 2014, investment in the Barrow shipyard by BAE Systems - in anticipation of submarine contracts - was expected to generate thousands of jobs. Some jobs have appeared but the numbers and knock-on effects have not been earth-shattering. BAE Systems Submarines produced an extensive Social Impact report for 2020-21 covering education and skills and community investment, making reference to its support for 198 community projects as well as its COVID support activities. However, the Cumbrian Local Enterprise Partnership Report for 2022 pointed to strong islands of very innovative firms operating in competitive global sectors; but often with few links to other firms operating in the Cumbria region (CLEP 2022: 12)

Barrow-in Furness is hardly a model to seek to replicate in Australia. Immediately before the onset of COVID, Barrow's unemployment rate stood above the UK national average. The proportion of the workforce who had a degree level qualification or higher was nearly 50% below the national average. 12% had no qualifications at all. In the period 2021-22, average salary growth in the area had been negative. According to official UK NOMIS data, in 2022, the proportion of people in Barrow who were economically active was well below the national average (65.1% compared to 78.5%). The proportion of jobs in manufacturing industry (30.0%) was well above the national average (7.6%), as was the numbers in skilled trades, but the other side of the coin is that the proportion in professional occupations was below the national average. To the extent that there is any evidence of spin-offs, it is very localised.

‘Cathedral in the desert’ or Jobs for Life?

Regional development analysts use the term ‘Cathedral in the Desert’ to describe islands of advanced development that have little connection with their surrounding region (Stilwell 1989). This situation arises where the introduction of a major manufacturing enterprise has disappointingly few secondary economic benefits for the region where it is located, because of the low multiplier effect and little diffusion of innovation and skills. Submarine production in Barrow would appear to be a case in point. Setting aside the awkward question of whether it is appropriate to describe nuclear submarine production yards as ‘cathedrals’, the metaphor points to the isolation as well as the lack of reliable flow-on effects to other parts of the economy and society.

For Port Adelaide/Osborne, the lesson is that it would be wise to treat all claims regarding job growth and related local economic development with a large pinch of salt. South Australia, like the rest of the country, is facing a massive skills shortage. A 2023 report from Jobs and Skills Australia (JSA 2023) argued that Australia would need more than two million workers in the building and engineering trades by 2050 and more than 32,000 more electricians by 2030. A development focussed entirely on producing nuclear submarines to reinforce a growing Cold War is going to suck skilled workers from other vital sectors.

Given Australia’s poor record on policies to deal with climate change, and the urgent need to develop more ‘green’ manufacturing industries focussed on products like recycling lithium batteries, solar panels and wind turbine blades, we could and should be investing in Jobs for Life – in all senses of the word. As Alison Broinowski (2023: 26) concludes:

> Upgrading our universities and TAFE colleges to produce graduates with the skills to do things and produce goods that Australia needs now, and to fill employment vacancies, would make more sense than training people to make lethal weapons.

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CLIMATE CHANGE POLICY

Nick Feik

When the Albanese government was elected, it was widely proclaimed that climate policy was back on track in Australia. Eight bleak years of Coalition denialism and intransigence had been punished by the voting public; a responsible government was back in charge with a mandate for climate action. An emissions target was promptly legislated, commitments were made for renewable energy projects around the country and a review of previous climate policies began. After two decades of the Coalition's excuses ('we'll act when other countries act'; 'we will meet and beat our targets'; 'our coal is cleaner'), Australia would finally play its part in reducing global emissions. It was full steam ahead for 'net zero by 2050'.

In reality, the political economic situation looks more deeply problematic. Just hours after she was sworn in as new resources minister, Madeleine King announced the government's strong support for Woodside's massive new Scarborough gas project. The decision was clearly incompatible with an ambition to reduce global emissions. The carbon bombs of Scarborough, Carmichael, the Beetaloo Basin, Liverpool Plains and more than a hundred other proposed coal and gas projects will pump carbon dioxide and methane into the atmosphere for decades at a rate that dwarfs Australia's current national emissions.

So how is 'net zero by 2050' consistent with opening new, larger fossil-fuel plants? Australia's answer lies in a suite of 'emissions reduction' policies first instituted by the Coalition government and since pursued by Labor: net zero isn't zero; Australian-sourced coal and gas emissions aren't counted towards Australian targets; and an apparatus of complex financial instruments – known as offsets – renders the entire edifice incomprehensible to most of us. What these policies protect the public

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from is the knowledge that Australian climate policy has been reverse-engineered to protect the interests of the fossil-fuel industry.

This article explores these tensions and contradictions. It discusses the policies, problems and prospects, focussing on the obstacles arising from prevailing vested interests that impede progress. Its successive sections move from consideration of emissions reduction, to carbon credits, the 'safeguard mechanism', a case study of the Scarborough project, and investment in environmental markets Overall, it challenges the Albanese government to 'get real' about what it would take to make Australia less of a laggard in meeting the global challenge posed by climate change.

Ambitions, modelling and interests

The rapid adoption of 'net zero by 2050' targets is not simply a reflection of long-overdue commitments by governments and corporations to do the right thing. While it is admirable that a growing number of governments and nearly half of Australia's ASX200 companies have voluntary 'net zero' commitments, there is an obvious problem when these targets are being adopted by the likes of Woodside and Shell, who are meanwhile expanding their fossil-fuel operations. Intrinsic to almost all 'net zero' commitments are two key factors: only a subset of emissions will be counted, and any emissions can be offset.

Offsets have been linked with fossil-fuel expansion for more than 30 years. The first carbon offset program, created in 1989, was an agri-forest project in Guatemala set up by an American energy company to offset the emissions of its new coal-fired power plant in Connecticut. The project failed to offset the emissions from the power plant by a factor of approximately 50, causing land use conflicts, struggles between authorities and land-owners for control over scarce forest, and legal changes that criminalised subsistence activities such as fuel wood gathering and undermined local farmer participation (Wittman and Caron 2009). For all its good intentions, it was the perfect example of what offsets would become. Instead of reducing or abating emissions it justified them, while also creating a different suite of problems.

Improvements in the scientific modelling of climate change throughout the 1990s and 2000s showed that countries' energy efficiency and emissions reduction efforts were failing to hit targets. They also indicated that greenhouse gases would need to be drawn down too – decreasing gases

already in the atmosphere – if emissions weren't cut fast enough. This was 'manna from heaven' both for governments struggling to cut emissions and for fossil-fuel companies: models could be constructed to show how drawn-down emissions could offset any failures to meet reduction targets.

The problem is not, of course, with using nature to help draw down carbon. It is when the main purpose of the activity becomes financial gain, and the tree-planting part becomes incidental (if not irrelevant or hypothetical) while still justifying growing greenhouse gas emissions. Carbon credits can be commercialised, made into financial instruments, and repackaged and resold. So, farmers and other land and title holders have a new revenue source, the big polluters invest, and governments can boast of their green credentials. Even environmental groups have bought in.

The United Nations and every scientific organisation worth its name have explicitly warned against relying on offsets to do the heavy lifting of emissions abatement. Problems include the difficulty of calculating and regulating carbon-abatement programs, the fact that trees cannot store carbon as permanently as coal, and that every credit justifies further fossil-fuel use. The practice of offsetting, even according to the federal government and industry, should be a last resort. First, we should be avoiding, reducing and substituting fossil fuels. Some uses of fossil fuels are virtually unavoidable; most are not. Yet carbon offsetting has become the main game in many global climate-change mitigation efforts, including in Australia. As the international carbon-credits market booms, estimates of its worth in coming years range into the many trillions. Every dollar spent pursuing it will be a dollar not spent on cutting emissions; and it will implicitly justify continued fossil-fuel use.

Fundamentally, there aren't enough trees or arable land in the world to offset growing emissions, and there never will be. *The Land Gap Report* (Dooley *et al*. 2022) co-published by the University of Melbourne and Melbourne Climate Futures, which included input from more than 20 international researchers, looked into the land-use pledges built into all countries' climate commitments. It found that they would require the use of almost 1.2 billion hectares of land – almost the equivalent of the total global land area used for crops (Dooley *et al*. 2022).

Furthermore, how do we use land for carbon abatement without harming local populations or existing fragile ecosystems? How do we plant the right trees in the right places, and make sure they grow for decades and aren't affected themselves by climate changes (or bushfires)? This needs

to be done equitably too. Yet these things are all secondary concerns for international financiers and fossil-fuel company directors. In fact, the abatement of carbon is itself secondary in the creation of carbon credits.

In January 2023, *The Guardian* reported that more than 90 per cent of offsets certified by the world's biggest carbon standard body, Verra, were likely to be 'phantom credits'. A nine-month investigation into Verra's rainforest credit certification found it did not represent genuine carbon reductions. Verra 'approves three-quarters of all voluntary offsets [globally] […] and its rainforest protection programme makes up 40 per cent of the credits it approves' (Greenfield 2023). The investigation also revealed that Shell, one of the five largest oil companies in the world, had set aside $450 million for carbon offsetting projects, and that at least three Shell staff sit on advisory groups for Verra (Shell is also the owner of an Australian firm, Select Carbon, which has 70 carbon farming projects across Australia).

Verra is not involved in underpinning Australia's legislated carbon offsets, but Verra-certified credits are nevertheless approved by Climate Active, the government initiative steering an 'ongoing partnership' with Australian businesses 'to drive voluntary climate action' by endorsing and approving corporate emissions reduction plans and claims. A sharper description for operations like this is 'state-sponsored greenwashing' (Hemming *et al*. 2022). Using Verra-certified credits (and others approved but also not checked by Climate Active), member companies such as AGL, Ampol, Alinta, Qantas, EnergyAustralia, Origin and Tokyo Gas have been able to make spurious 'carbon neutral' claims using near-useless credits. This has been done with the active support of successive federal governments, because carbon credits are what the 'net zero' edifice is built upon.

Emissions reduction

Australia once had an economy-wide price on carbon, courtesy of the Gillard government. Now it has only an Emissions Reduction Fund and a Safeguard Mechanism, which applies to facilities that produce 100,000 tonnes or more of CO_2-equivalent emissions a year – currently around 215 facilities but likely to rise. The Emissions Reduction Fund was established in 2014 as an expansion of prime minister Tony Abbott's 'direct action' policy. The Safeguard Mechanism, which came into effect in 2016, established a threshold for when companies had to buy carbon credits to

offset emissions. These are now ensconced as the only legislated national emissions reduction policies (not counting the emissions target, which is currently little more than an empty box with '43 per cent' written on it).

The rise and rise of carbon credits as an emissions 'reduction' scheme in Australia echoes developments abroad, but our system has been forged in instructive, significant ways. More than anything else, it reflects the hold that the resources industry has over our political system. Australia's version emerged under a Coalition government that had little interest in reducing emissions. It created the market but was unscrupulous in its regulation of both carbon credits themselves and the requirement to use them. One tonne of greenhouse gas emissions could be 'abated' through the purchase of one Australian Carbon Credit Unit (ACCU), the official currency for Australian offsets.

The original Safeguard Mechanism was so badly designed that emissions by the major polluters weren't constrained at all. A sceptic might infer that perhaps it was working as intended. Either way, the evidence is clear: the emissions by the major polluters continued rising after the mechanism was introduced (Morton 2019). More significantly, if polluters did happen to have emissions reduction obligations at all, they were allowed to use as many offsets as they wished, and the government designed a system in which ACCUs could be created as cheaply as possible, using as many methods as possible. These methods (tree planting, land-use changes, and landfill gas burning, among others) were often co-designed with industry stakeholders, and the agency responsible for regulating the credits and overseeing their probity, the Clean Energy Regulator, was also tasked with issuing as many permits as possible, as cheaply as possible. It was tasked with buying them back on behalf of the government as cheaply as possible too – a clearly conflicted set of responsibilities. The regulator also became a financial supporter of its own industry lobby group, the Carbon Market Institute, whose mission is 'to help business manage the risks and capitalise on opportunities in the climate transition to a net zero emission economy'. The Institute includes such members as AGL, Ampol, AngloAmerican, BP, Origin, Shell and Woodside.

Alongside the regulator, the Emissions Reduction Assurance Committee – the independent statutory body that assesses the compliance of offset methods – included the following people: David Byers, former chief executive of the Australian Petroleum Production and Exploration Association and carbon capture lobby group CO2CRC, and former deputy

of the Minerals Council of Australia; Margie Thomson, chief executive of the Cement Industry Federation (one of Australia's largest polluting industries); and Brian Fisher, long-time lobbyist for fossil-fuel interests, campaigner against strong action on climate change, and author of the report for the Morrison government that claimed Labor's modest 2019 climate policy would be a 'wrecking ball' through the economy.

A handful of companies now dominate the Australian carbon-credits market; and they are increasingly influenced by fossil-fuel interests. In fact, all the largest carbon aggregators dealing in the carbon-credits market are now either part-owned by companies with major gas interests or count ex-resources executives as directors and/or major shareholders. The incentive for big polluters is obvious: if required by law to abate or offset emissions, why not find a way to profit from it? There is little incentive for the carbon-credit industry to produce a product (*i.e.* abatement) of any actual worth: the credits' creators, traders and buyers have no genuine stake in the integrity of the credits. Polluters just need the piece of paper, farmers and traders want the cash and the government needs to meet its targets. Together, they have created the ideal, frictionless profit machine.

Other links between key personnel among the regulators and profit-seeking enterprises are indicative. The chair of the Climate Change Authority (CCA), whose task is to provide independent advice to the government on climate policy, is also the chair of GreenCollar, the largest carbon-credits aggregator in Australia. Grant King is the former head of Origin Energy, former director of Australian Petroleum Production and Exploration Association, former chair of the Energy Supply Association of Australia and former president of the Australian Gas Association, and is also on the board of GreenCollar's parent company, Green Climate Co. This company, in which King owns shares, is also the ultimate owner of a share of the biggest soil-carbon credit trader in Australia, Agriprove, which is linked by ownership with other major aggregator, Corporate Carbon. The deputy chair of the CCA, Susie Smith, was a long-time manager at gas company Santos and is now chief executive of the Australian Industry Greenhouse Network, a lobby group for the fossil-fuel industry that supports the 'net zero' ambition but has been largely unsupportive of specific climate policies. Another CCA board member with carbon-trading interests – but not the only other one – is Mark Lewis, director and a shareholder in Australian Integrated Carbon, which is part-owned by Japanese companies Mitsubishi and Osaka Gas, shareholders in large Australian gas projects.

Carbon credits

In March 2022, an Australian National University research team, headed by professors Don Butler and Andrew Macintosh (who was also the former chair of the Emissions Reduction Assurance Committee), raised serious concerns about the Australian carbon credits scheme. In a series of papers, the team outlined systemic flaws in the way credits were issued, finding serious governance problems, and revealed that low integrity credits were wasting billions of taxpayer dollars. The ANU team stated: 'Our analysis focused on three of the fund's most popular methods – avoiding deforestation, human-induced regeneration of native forests and combusting methane from landfills. These account for 75% of the credits issued under the scheme. We found that more than 70% of the credits issued under these methods do not represent genuine emissions abatement'(Mackintosh and Butler 2023).

Moreover, the ANU team's analysis, which has since been echoed by other organisations including the Wentworth Group of Concerned Scientists and the CSIRO, found that the scheme was flawed from the outset. The 'human-induced regeneration' method, for example, allocates carbon credits for projects that remove vegetation 'suppressors' (such as cattle and weeds) from land to allow the return of native forest. But the analysis found that, in practice, this method can allow credits to be issued for areas that were already forested; what's more, it appeared to be crediting abatement for the return of forest cover that was in fact driven by rainfall. Further research found that in areas where millions of carbon credits had been allocated to projects to store carbon, the overall tree and shrub cover had actually *declined* (Macintosh *et al*. 2023).

The 'landfill gas' method issues carbon credits to projects that capture methane emitted from landfill sites and combust it using either a flare or an electricity generator. The ANU team found that two-thirds of the abatement credited under this method would have occurred anyway: landfill gas companies were already doing it. This 'non-additional' abatement earnt 'approximately 19.5 million Australian carbon credit units (ACCUs), or almost 20% of the total number of ACCUs issued under the ERF to the end of 2021' (Macintosh 2022). Even companies making money from the scheme issued a statement drawing attention to the ridiculousness of the situation. The Clean Energy Regulator, on the other hand, continued to defend the integrity of the system.

The ‘avoided deforestation method’ issues credits to projects for not clearing specific areas of forest in western NSW that could theoretically otherwise be cleared (*i.e.* that were eligible to be cleared under a particular type of permit). Analysis of historical clearing rates in these areas by The Australia Institute (Merzian and Schoo 2021) demonstrated it would have implied a land-clearing rate at least 750% higher than the already high historical state average. Put simply, the avoided deforestation method awarded credits for clearing land that was never going to be cleared because carbon aggregators had convinced some farmers to attest that they *were* going to clear their land, but now they weren't. That is, they were rewarded for doing nothing.

It is generally assumed that carbon credits are about trees being planted, but this activity represents just 2.5% of all credits issued by the government, according to Andrew Macintosh and the official ERF register (Macintosh *et al.* 2023). The vast majority of credits created are perversions of officially approved methods. This is the natural consequence of the architecture of the system because the government asks carbon traders to deliver credits at the lowest possible price – and the cheapest way is by doing nothing at all.

A policy mix combining credits and safeguards

In 2022, after the election of the Labor government and amid rising criticisms of the Safeguard Mechanism and the carbon credits system, the new minister for climate change and energy, Chris Bowen, announced a re-evaluation of both, foreshadowing a tightening of the Safeguard Mechanism. Professor Ian Chubb, former chief scientist, was invited to undertake an independent review of the controversial carbon credits scheme. This long overdue re-evaluation seemed to indicate that we would all learn how the new government intended to approach climate policy, beyond the aspirational ‘net zero’ rhetoric and the push for more renewable energy.

During its final year in Opposition, Albanese's Labor Party had played a sensible, if overly safe, game on the climate issue, not wanting to alarm the business community but also offering the public a point of difference from a Coalition government that has come to be recognised as wilfully negligent. The fact that Australia's second- and third-largest exports, coal and gas, were critical contributors to the global climate crisis was an

inconvenience that Bowen, Albanese and colleagues evidently could ill afford to discuss. So, with great diligence and discipline, they responded to every campaign-trail question about climate change by pivoting, unfailingly, to renewable energy and Labor's plan for net zero, skating over the fact that climate-change mitigation also requires that fossil-fuel extraction (and exportation) be rapidly reduced.

Safeguards of some sort would need to save the day. The draft of the new safeguard legislation was released before the Chubb review was even due to report, and, as under the Coalition, its conception of mitigating emissions rested heavily of the use of offsets. In fact, while the big polluters would theoretically need to reduce their emissions by 4.9% per year until 2030, the 'reduction' could still be done entirely through offsets. This would, after all, be the cheapest way to meet their targets. So, the question of how thoroughly the Albanese government would review the integrity of its offsets policy framework remained crucially bound up with interests and integrity of the key industry players. Minister Bowen also attended industry events while the review was taking place, talking up the importance of carbon credits and encouraging participation in the market.

Of the three other members appointed to the Chubb review panel, two were linked to companies that profit from current carbon offsetting arrangements, another was touting the potential of carbon credits on behalf of her investment fund, and the review's secretariat staff had been seconded from agencies responsible for the original design of the credits.

The Chubb review was released in early January 2023 and found, as its critics predicted, that the whole system was basically sound. 'In recent times', the review said,

> the integrity of the scheme has been called into question – it has been argued that the level of abatement has been overstated, that ACCUs are therefore not what they are meant to be, so that the policy is not effective. The Panel does not share this view […] The Panel concludes that the scheme was fundamentally well-designed when introduced (Chubb *et al.* 2022)

Equally predictably, it proposed some small changes 'to improve the scheme: to clarify intention where necessary; to clearly identify (and separate) the key roles of integrity assurance, regulation and administration; to remove unnecessary restrictions on data sharing; to enable free prior and informed consent; and to improve information and incentives' (Chubb *et al.* 2022: 2). The inference was that some tweaks to

an otherwise sound policy program would suffice. Even though problems had been identified, all existing credits would be honoured, and while the 'avoided deforestation method' was recommended to cease (for reasons relating to the age and limited remaining number of land-clearing permits in the relevant land areas), the many millions of existing credits generated under this method would continue to generate offsets.

It is difficult to understand how the Chubb panel had reached its conclusions because it didn't provide evidence to support them, or much detail and analysis. To inform its considerations, it had commissioned the Australian Academy of Science to review the various credit-generating methods. Yet there was no sign that Chubb's panel had even considered the resultant findings, which, as it turned out, were very critical. In one strange paragraph, the Chubb review cites the criticisms levelled at the scheme but rebuts them as follows: 'While the Panel was provided with some evidence supporting that position, it was also provided with evidence to the contrary' (Chubb *et al.* 2022). What was that contrary evidence is not specified: we just have to take their word that it was convincing.

A case study of Woodside's Scarborough project

A practical case study can be help to clarify how, in practice, the proposed changes to the Safeguard Mechanism would affect the likely emissions resulting from a new gas-mining project. The project is the Scarborough project, which Woodside is developing, with the support of both current and former federal governments. It involves exploitation of an offshore gas field on the Pilbara coast in Western Australia; and it is expanding the associated Pluto LNG processing facility onshore near Karratha.

If it all proceeds, the combined greenhouse emissions from the Scarborough/Pluto development are expected to total approximately 1.4 billion tonnes over the estimated 25-year lifetime of the project (Hare 2022). This figure includes both direct and indirect emissions: that is, both 'scope 1' emissions from the extraction, processing and transport of the gas by Woodside, and 'scope 3' emissions from the burning of that LNG by those who purchase it. As pointed out by Bill Hare (2022), a climate scientist and member of a UN expert group on net-zero commitments, 1.4 billion tonnes of additional emissions is more than three times Australia's current annual emissions.

How will this be manageable under Labor's new Safeguard Mechanism? Even taking into consideration the tweaks to the carbon-credit scheme that the government is introducing as a result of the Chubb review, the likely future emissions are mind-boggling. The law will still require companies to count only their scope 1 emissions, which in the case of gas projects typically comprise just 10% of total emissions. For the Scarborough project, this equates to around 3 million tonnes. And Woodside can buy offsets to cover its emissions reduction obligations, which in the project's first year of operations would equate to 4.9% of its scope 1 emissions: 147,000 tonnes. This would amount to just half of one percent of the total annual emissions, at current prices, this would cost roughly $5 million. It might cost even less than that because the government has already flagged 'flexible compliance arrangements' and 'tailored treatment for emissions intensive, trade-exposed facilities', and has offered an initial $600 million of taxpayer funds from the $1.9 billion 'Powering the Regions' fund to subsidise companies' costs in cutting emissions (Department of Climate Change, Energy, the Environment and Water 2023).

Notably, Woodside has been accumulating carbon credits over the past few years, presumably whenever prices were low. Woodside's chief executive, Meg O'Neill, recently announced that the company has already acquired nearly all the carbon offset credits it needs for its 2030 emissions reduction target (Packam 2022), meaning it has already covered the cost of business as usual, and has no need to actually reduce its emissions. This is hardly surprising: it is a fossil-fuel company that is actively expanding its operations, with the encouragement of the government.

The Safeguard Mechanism aims to deliver a total (for the 215 major polluters) of 205 million tonnes of greenhouse-gas abatement by 2030. This, averaged out, is less per year than Scarborough alone will add to the atmosphere. And, if the 215 largest polluters covered by the mechanism wish to achieve such 'abatement' entirely by buying offsets, at current prices and averaged over the years to 2030, this would cost approximately $900 million per year – between all 215 of them. If that sounds like a heavy impost, consider this: the federal government currently subsidises fossil fuels to the value of $11 billion per year (Climate Council 2022). It has also promised $1.9 billion to the Northern Territory's Middle Arm Petrochemical plant, which will convert fracked gas from the Beetaloo Basin. Consider too, as recently pointed out by energy and financial analyst Tim Buckley (2022a), that the fossil-fuel corporations operating in

Australia (a subset of the 215 major emitters) made $120 to $140 billion gross profit last year on exports of Australian LNG and coal.

This case study indicates that the Safeguard Mechanism, in both its existing and proposed forms, will primarily safeguard corporate profits and provide 'certainty' for fossil-fuel companies to continue to expand, without reducing real emissions, for the foreseeable future. The relief shown by the heavy industry companies when the draft Safeguard Mechanism bill was released in January 2023 was palpable.

Investors in environmental markets

Another political economic factor needing to be faced is that the policy environment is increasingly dominated by investors in environmental markets. The slow creep of resources companies and their executives into carbon-trading businesses in Australia has been accompanied by the incursion of other carbon-credit investors onto the boards of not just the Climate Change Authority but also the Australian Renewable Energy Agency and Clean Energy Finance Corporation, promoting investment in each other's businesses.

Many of Australia's biggest environmental organisations also have various links to the carbon markets: WWF Australia's president is Martijn Wilder, the founder and chief executive of Pollination, which has a commercial interest in carbon trading; Australian Conservation Foundation's former chairs, executives and directors include Don Henry (Natural Carbon), John Connor (Carbon Market Institute) and Mara Bun (GreenCollar); and The Nature Conservancy, Bush Heritage Australia, Australian Wildlife Conservancy, Pew and Greening Australia have all been involved in carbon-offset projects. This is not to imply any wrongdoing on their part, only that it has had the general effect of quieting criticism of offsets.

Many former environmental policymakers and departmental staff members have moved into carbon trading and related environmental advisory firms, and major financiers and private equity players, led by Macquarie, EY and HSBC, have come to see environmental offsets and other related derivatives as a new investment class: 'natural assets'.

This in turn has yielded entities such as Xpansiv, a global-trading platform for environmental assets, which was born out of Australian firm CBL Markets in 2019. Xpansiv lets investors trade digital assets such as

renewable-energy credits and claims to execute at least 90% of all exchange-traded voluntary carbon credit transactions globally. It is valued at around $1.8 billion and backers include Macquarie Group, Occidental Petroleum and BP Ventures.

Environment Minister Tanya Plibersek recently called for a 'Green Wall Street' (Slezak 2022); and has been busily planning a biodiversity offsets market in which every endangered species of flora and fauna will be protected not by regulation but by a price. This warrants separate investigation because it is unclear how a market of financial instruments with a similar design to Catholic 'indulgences' (in this case, for property developers and miners paying for their sins) could save fragile ecologies. Or should we be relieved that big money is moving into environmental engagement?

Political implications

Over time, the pressure to reach the Labor government's target of 4.9% emissions abatement each year will become a more significant financial penalty, even if it is only done via cheap offsets. One danger, apart from the obvious one that heavy polluters will continue to heavily pollute, is that a future government could loosen the law again; the policy only runs until 2030. Another possibility is that the international community may recognise that Australia is gaming the system and impose a carbon-border adjustment tax on our exports.

In the meantime, offsets are evidently here to stay as a key policy component. Yet the politics is proving fractious. The Albanese government's legislation to amended the Safeguard Mechanism had an extraordinarily toubled passage through parliament in 2023. Not surprisingly, Opposition leader Peter Dutton flagged the Coalition's disapproval early, making the government need the combined votes of the Greens and two other independent Senators to pass its bill through the Upper House. The predictable catch-cries were: the Greens must not let 'the perfect be the enemy of the good' and independent senators 'need to be realistic about not getting everything they want'. But some very tough negotiating ensued, because both the Greens and independent Senator David Pocock consistently stated their opposition to any new coal or gas projects and to the unlimited use of offsets to achieve abatement goals. The short-term success in getting the legislation through the Parliament does

not obviate the political reality that the push for taking a firmer stand is growing and can be expected to strengthen further over time.

The arguments for a firmer stand, as expressed by Pocock and the Greens in Parliament and, more generally, by a growing array of critical environmental organisations and concerned citizens, are cogent and reasonable. First, the growing market for carbon offsets is not producing lower emissions. Second, facilitating the continued export of fossil fuels has neither ethical justification nor practical contribution to reducing the global problem of climate change. Climate Analytics recently reported that for every carbon credit unit generated to offset 1 tonne of CO_2 equivalent emissions from LNG production in Australia, around 8.4 tonnes go into the atmosphere once the gas has been exported and burned overseas (Wilson *et al.* 2023).

Conclusion

Australia is the third-largest exporter of fossil fuels in the world, and global carbon dioxide emissions from all human activities hit record highs in 2022, rising above pre-pandemic levels, according to an analysis by the Global Carbon Project, an international body of scientists. Australia has objectively more, not less, of a responsibility to rapidly reduce the world's use of these fuels. Yet the Albanese government continues to use a similar justification as the preceding LNP Coalition governments - that the nation's export of fossil fuels is just responding to global demand, and other nations need to be responsible for their own emissions. But arguments that 'we just supply the product' and 'it's not our problem what other countries do with it' are poor substitutes for moral responsibility; and they are not acceptable in other contexts. Governments, it is widely agreed, can regulate illicit drug use, access to guns and asbestos production. Yet there is evidently deep reluctance to impose laws that might crimp the profits of fossil-fuel companies, even when the destruction of our planet is at stake.

Notwithstanding the Albanese government's claims to be making more progress on environmental and climate change policies than its Coalition predecessors, there is evidently a very long way to go. The political economy of reining in the power of corporate capital, especially the transnational companies with entrenched interests in fossil fuels, is the key issue. Therein lies a fundamental contradiction, however, because it is the

power of corporate capital to constrain, even to shape, public policies that limits the possibilities for progress. But progress in dealing with climate change is different from other fields of public policy, because failure to curtail carbon emissions spells global disaster – for corporations as well as for humans and other species.

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THE VOICE REFERENDUM

Mike Berry

Australian schoolchildren are told that they live in the world's largest island and smallest continent, a land that has been continuously occupied by countless generations of Indigenous people over the last sixty-five thousand years. On 14 October 2023, about 40% of Australians voted 'yes' to a Constitutional amendment that would have formally recognised these original inhabitants, the Aboriginal and Torres Strait descendants of Terra Australis. The other 60% voted 'no'. In no States did a majority vote 'yes'. The Constitutional amendment failed.

Holding the referendum was a major part of the platform that Labor took to the May 2022 federal election; and Anthony Albanese chose to lead his triumphant election night speech to the Labor faithful with his personal promise to carry it through. Having made much of the need for truth, transparency and integrity in government – with an eye to the absence of all three in the preceding Morrison government – and pitching it as the first priority of his administration, the new Prime Minister set up an unambiguous benchmark by which to be judged.

At the time, the political risk seemed low. Albanese had ridden the wave of anti-Morrison rage with political skill and was buoyed by polling and focus group data showing a clear majority of Australians were in favour of recognising Australia's First Nations' peoples in the Constitution. However, the initial support continuously fell from election night and through 2023 (Briggs 2023).

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Brief background

The Australian Constitution that came into force on the first day of the twentieth century was negotiated by white male politicians born and raised in the preceding century. They accepted and promoted the iniquitous doctrine of *Terra Nullius*, a myth propagated by the early British explorers to assert that the Great South Land was bereft of inhabitants. Although demonstrably untrue, the land-hungry newcomers set out to make it so.

Section 51 (xxvi) empowered the newly created Commonwealth government to make special laws for people of 'coloured or inferior races', *excluding* 'the aboriginal race' whose regulation and control were to be left to the State governments. Section 51 also explicitly prevented Indigenous Australians from being counted in regular population censuses. From the start, what has been called 'the race power' placed Aboriginal and Torres Strait Island peoples at a systemic disadvantage to other Australians. Not to be counted amounted to a confirmation of *Terra Nullius*. In an imported post-enlightenment culture where measurement and quantification equated to 'scientific knowledge', this was a crushing blow and justified policies based on a mix of neglect, control and paternalism.

The subsequent atrocities of massacres, the 'stolen generations', mass incarceration, deaths in custody, confinement, unemployment, homelessness, poverty, discrimination, and health and educational disadvantages have resulted in third world hubs in a first world country (Reynolds 2013, 2021). The fact that the Constitution was finally amended in 1967 to remove the race power clause, with more than 90% of Australians voting 'yes' at that time, has not materially 'closed the gap' (Ashenden 2022). Governments continue to impose policies on Indigenous communities without consulting them in an effective and continuing manner.

In the face of accumulating government failure, Aboriginal activists have been pushing for new and more effective ways of involving Indigenous Australians in the development, implementation of and accountability for policies aimed at improving their lives. Too often, even well-meaning actions of state and federal governments have been imposed without the input or knowledge of Aboriginal communities, resulting in perverse outcomes that have reinforced prevailing injustices and stereotypes. This push culminated in 2017, when Indigenous representatives met in central

Australia and agreed what came to be called 'The Uluru Statement from the Heart' (2017). Basically, this statement proposed three paths forward:

- recognising First Nations' peoples in the Australian Constitution by way of a permanent 'voice' to parliament;
- recognising joint First Nations sovereignty with the Crown, paving the way for development of treaties between Indigenous peoples and Australian governments;
- establishing a process of truth-telling about the historical record and the continuing injustices between Indigenous and non-Indigenous Australians.

These are the three elements in the *Uluru statement* commonly referred to as Voice, Treaty and Truth.

Framing the referendum

The incoming Albanese Labor government promised to accept the offer made by the framers of the *Uluru statement*, 'in full'. But the new government chose to start with point one, The Voice, which would provide Indigenous communities with a permanent mechanism for giving advice to government on issues affecting them. The key point was *permanent*. By being enshrined in the Constitution, future governments had to 'listen', though not heed, advice from a mechanism that could not be unilaterally removed (as has occurred in the past with advisory bodies of Indigenous peoples, such as ATSIC), other than by another successful Constitutional amendment.

As it turned out, the order of action may have been misplaced. Opposition to the proposed amendment that only picked up the first of the three points quickly mobilised around the other two. Conservative politicians and their backers in agribusiness and the natural resources sector represented the proposed Voice as likely to lead to an attack on private property owned by non-Indigenous Australians. In stirring the pot, they relied on the widespread ignorance of the history of relations between Indigenous and non-Indigenous Australians to bolster extraordinary assertions like – 'they are coming for your land and house'. Decades of 'the history wars' had prepared the majority of voters with a distorted and demeaning view of how we have arrived where we are and reinforced a generally ungenerous, for some deeply racist, attitude to First Nations peoples.

But rank racism is not the full story. There was also genuine confusion about *why* the Voice was needed, a situation readily reinforced by those opposed to the amendment on a rag-tag range of grounds, reflecting material and ideological commitments. The centre right and far right political parties quickly planted their flags as being opposed to creating a 'special status' for First Nations' peoples. The cry went up – 'it will divide our nation: we are all equal'. The fact that we are not all equal – that we are divided along class, ethnic, gender, 'race' and cultural fractures – was wilfully ignored. The power of centuries of liberal ideological baggage focused on individual 'rights' and aspirations was brought to bear in favour of those with entrenched privilege and power.

The timing of the referendum magnified the impact of this tendentious claim. In an era of high interest rates, declining living standards for the majority of Australians and increasing economic insecurity, it was not surprising that many working class voters and downwardly mobile middle class voters looked to their own. For those Australians finding it difficult to meet rising housing, health and utility bills, the plight of others less fortunate than themselves receded in significance. The question *why should we vote yes* morphed into *why should 'they' get something (anything) when we get nothing?* Perceptions of inequality, as the sociologist W.G. Runciman (1966) once said, is all about relative deprivation.

This helps us understand the seemingly counter-intuitive result that the strongest 'no' votes were concentrated in low socioeconomic areas, while 'yes' triumphed in the areas having the most affluent voters. Cities like Sydney and Melbourne displayed this stark divide. The inner city, eastern and beachside suburbs were strongly in favour; but almost all the western suburbs and non-metropolitan regions went against the referendum proposal.

A positive correlation between educational attainment and the likelihood of supporting the amendment has also been suggested (*e.g. The Guardian* 2023). Indeed, it is possible that the stronger correlation may well be with education than with geography. However, more to the point, people who live in well-heeled areas have the everyday luxury to express empathy for others because they are not scrambling to keep a roof over their heads and food on the table. This, I believe, is the key political lesson of the referendum outcome, one that should have been well embedded on the progressive side of politics after the global rise of authoritarian populist

forces here, there and everywhere. Trump, Brexit, Orban, Duda and the whole grisly lot should have forearmed us against the volley of misinformation, disinformation and vitriol that poisoned the campaign from the beginning.

It is also the case that the 'no' campaign was well orchestrated. The leaders of the Coalition parties, Peter Dutton and David Littleproud were able to (literally, at photo ops) stand behind their Aboriginal shadow Indigenous Affairs spokesperson, Senator Jacinta Nampijinpa Price who argued that Aboriginal Australians were *better off because of British colonisation*. The symbolism of her strong challenge to the 'yes' campaign's focus on Indigenous deprivation provided cover for many Australians unaware of the realities of Indigenous disadvantage to vote 'no', not because they lacked empathy and generosity but because they just didn't know. The slogan 'if you don't know, vote no' was scurrilous but evidently highly effective.

All this is familiar stuff, right out of the Tory handbook. What is baffling to me was the role of what was called 'the progressive no' campaign spearheaded by another Aboriginal Senator, Lidia Thorpe. People in the 'Blak Sovereignty' movement opposed the voice because they don't wish to be included in the Constitution. Their overriding aim is to achieve a treaty or treaties with the Crown over sovereignty, though it is not clear whether they mean absolute or joint ownership of the land. This meant that the government and 'yes' campaign were faced with two articulate, young Aboriginal women arguing against the amendment for radically different reasons but both claiming that most Indigenous Australians opposed the Voice. That this was false was borne out by the fact that the 'yes' vote prevailed in most remote Aboriginal communities, up to 80% in places like Leonora in Western Australia, Hope Vale in far north Queensland and in the south-west of the Northern Territory. 60% support figured in Fitzroy Crossing (WA), Jabiru (NT) and Lockhart River (Qld.).

Senator Price believes it ain't broke. Senator Thorpe thinks it's broke and beyond fixing. The latter seems to believe that the 'no' result is a victory and will hasten attention being focused on the issue of Indigenous sovereignty. This seems to me to be sheer fantasy, showing a level of political naivety almost beyond comprehension. If the majority of the 3% Indigenous minority cannot convince the other 97% to enshrine a Voice, are the majority of non-Indigenous Australians ever likely to accept Aboriginal sovereignty? In fact, in the immediate aftermath of the vote,

the Queensland and NSW Labor governments began to wobble at the knees on their promises to negotiate separate treaties with their Indigenous communities. Former Labor Prime Minister Paul Keating (2023) commented that the failed campaign for the Voice has probably pushed treaty off the political agenda indefinitely.

Complacency also marred the 'yes' campaign. The early polls, as noted, showed strong majority support for the amendment. The government was also fooled by drawing on the earlier overwhelmingly positive outcome of the same sex marriage plebiscite. Whereas many, perhaps most, voters knew someone – family member, friend, or friend of a friend – in the LGBQI+ world, many, perhaps most, did not directly connect with Indigenous Australians, in part because of their limited numbers but mostly because of their geographical and socioeconomic marginalisation.

There have been many causes advanced to explain the result, which I won't rehash here. But the deadly simple mechanics of constitutional change in Australia, supported by the undeniable historical experience of forty-four previous attempts, is that success depends on there being bipartisan support across the political and parliamentary divide, and a strong positive vote in Queensland. As soon as the Queensland-based leaders of the two Coalition parties came out swinging against the amendment, the task for the 'yes' campaign became immense.

Where now?

In the immediate aftermath of the referendum, Indigenous leaders withdrew, many observing a week of silent reflection. As a non-Indigenous Australian, I have no insight into nor right to suggest where the movement for Indigenous rights might go next. The referendum raised complex issues and diverse opinions among and within Indigenous communities that will be worked through over the next few years by Indigenous leaders and communities across the country. One view was put recently by Yorta Yorta man Daniel James (2023). Based on early soundings with other Indigenous people who had campaigned for 'yes', he suggested building on that momentum with a threefold focus:

- reinvigoration of the 'closing the gap' agenda through a coalition of relevant peak associations

- development of a new body to not only represent First Nations' interests but to actively advocate (agitate) for the strengthening of Australian democracy and truth in public life
- ensuring that a Peter Dutton-led Opposition does not win the next federal election.

This last aim places pressure on the Albanese government and Labor movement to deliver meaningful reform. Both have undoubtedly suffered a major blow, eating away at the political capital inherited on election night 2022. The key question is – can they regroup and move on? What would that look like? As I see it, there are two broad paths forward.

First, the government can retreat to its oppositional strategy of 'head down', advancing only those policies that cannot easily be weaponised by the Coalition attack dogs, notably Peter Dutton and his Murdoch media henchpersons. The downside of this small target approach to the next election is that a second term Albanese government would then be wedged into continuing the 'Liberal-light' agenda of its first term. It may seem like the low-risk strategy – if holding onto office and not doing anything when there is the driving aim – but the downside risk is that progressive supporters will drift away to the Greens and Teals.

The alternative progressive approach would involve attacking inequality, the root cause of populist insurgency worldwide. This would require sharply focused policies that improve the life chances of those disenchanted voters who have ceased being 'aspirational' and are now 'survivors', clinging on in hope of getting through. It would require clever and nuanced policies of taxation reform that 'soak' the rich and exempt the remaining voters who still aspire to be rich. At the top of the list would be a wealth tax concentrating on the total assets of the wealthiest 5% of Australians, while exempting the sacred cow: 'the family home'. This would require careful design to keep ahead in the cat and rat game of tax dodging. Companion policies would need to aim at the means – including asset shifting, trusts, and private and shell companies – by which the super-rich conceal or transfer their wealth through family networks and sundry other murky avenues.

Such policies would also need to complement other international efforts to control tax havens and levy minimum global income taxes on corporations. The recent comprehensive report by the EU Tax Observatory (2023) notes that 'tax evasion– including grey-zone evasion at the border of legality – is increasingly happening domestically. Global billionaires

have effective tax rates equivalent to 0% to 0.5% of their wealth, due to the frequent use of shell companies to avoid income taxation. To date, no serious attempt has been made to address this situation, which risks undermining the social acceptability of existing tax systems'. Increasingly, tax evasion is occurring closer to home as progress is made on closing down international tax havens. One of the authors of the report has co-authored an extensive study of the need for radical tax reforms across the developed economies (Saez and Zucman 2019). International cooperation in establishing and policing a global assets register would help, with a portion of receipts directed to coordinated action on climate change, especially in the Global South.

A strategy of getting serious about the broader issue of economic inequality is obviously a high-risk strategy, with memories of the 2019 electoral outcome still burning bright in the minds of Labor leaders. Dutton would wheel out the well-tested furphies of 'the politics of envy'. This attack would be vociferously backed by those individuals and corporations most likely to lose from a more progressive tax system, a narrative that we have seen played out many times over the years. But would it succeed this time? Dutton is widely disliked in the broader electorate; and his behaviour in the referendum painted him indelibly as 'Mr. Nasty'. If Labor's strategy was pursued with focus and discipline, clearly identifying on whom the taxes would fall and on whom they would not, while also pointing to how the proceeds would be used to solve 'the cost-of-living crisis', would Dutton be able to carry enough moderate liberal and swing voters in the seats he would have to win to defeat Albanese and his team?

A sober assessment of Dutton's political success on the referendum suggests that the Coalition could foreseeably flip enough seats in Western Australia and outer suburbs in other States to drive Labor into minority government again, dependent on a large crossbench in both Houses.

Conclusion

This view of the referendum and its aftermath suggests, as noted, that Indigenous affairs will return to the backburner for some time, an outcome already anticipated if not welcomed by Aboriginal leaders. New ways will need to be found to involve Indigenous communities in policies that actually close the gap. The referendum was an opportunity lost. The result was shocking but not a surprise.

The future in a highly volatile world, marked by the forces of multi-polarity, deglobalisation and rolling crises, economic and political, is even more difficult to foresee than usual. Labor clearly has a big challenge on its plate to avoid the indignity of being dumped into history's dust bin as a one-term wonder.

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A BREAK WITH NEOLIBERALISM?

Cian Galea

'Capitalism after the Crises', the essay written by Treasurer Dr Jim Chalmers' for *The Monthly* (Chalmers 2023), elicited critical responses from across the political spectrum. On the one hand, it was interpreted as an admission that the Albanese government is devoted to the management and facilitation of private capital as a strategy of political control (Rundle 2023). On the other, Chalmers was accused of wanting to redesign capitalism by the end of 2023 through the socialisation of the economy (Cater 2023). Although distilling a single signal from an article susceptible to such contradictory interpretations would be a fool's errand, evaluating Chalmers' stated opposition to neoliberalism and his alternative policy prescriptions is an important element in understanding Labor's approach to policy formulation.

Chalmers uses Heraclitus' dictum that 'no man ever steps in the same river twice' as the through-line of his essay, neatly reminding us that what had worked in the past does not necessarily work in the present (Chalmers 2023: 20). It is also the basis for what has been described (by Cater 2023) as Chalmers' overworked fluvial metaphor, depicting a stream of perilous white water through which policy makers must wade and rock-hop to build a better future on the other side (Chalmers 2023: 28). This emphasis on the need for new solutions, embodied in Chalmers' call for a new 'values-based capitalism', is supplemented by explicit criticism of neoliberal policies. Specifically, the Treasurer highlights successive leaders' failure to find their way past neoliberalism after the Global Financial Crisis, as most starkly evident in Treasurer Joe Hockey's catastrophic 2014 austerity budget (Chalmers, 2023: 23). Chalmers also argues that, while the neoliberal model pretends to be agnostic on how to design markets, facilitate capital flows to priority areas and make progress on collective

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problems, a choice is ultimately being made through passive de-prioritisation and the perverse outcomes that emerge over time (Chalmers 2023: 28).

The genuineness of Chalmers' rhetoric about the inadequacy of the old neoliberal models and the need to build a better, uniquely Australian capitalism (Chalmers 2023: 28) matters because, taken literally, it could constitute a break with social democratic orthodoxy within the Anglosphere. Social democrats have been involved in the consolidation of neoliberalism since Tony Blair in the UK and Bill Clinton in the USA followed in the conservative slipstreams of Margaret Thatcher and Ronald Reagan (Cahill and Konings 2017: 39). An open disavowal of these processes by Chalmers could indicate a crisis in the current form of neoliberalism and a potentially significant shift in the future for social democracy.

Perhaps this an instance of what Gramsci described as a situation in which 'the old is dying and the new cannot be born'. If so, is Chalmers' values-based capitalism the new that cannot be born or one of the morbid symptoms that occur in the interregnum? Answering this question requires consideration of both the intentions and the policy prescriptions that Chalmers features in his essay. Specifically, Chalmers proposes to build values-based capitalism using the three forms of public-private partnerships: co-investment, collaboration and impact investing (Chi Wong and Hameiri 2023). Whether any such notions can lead to actions for real change is germane to understanding whether the Australian Labor Party has the intention and capability to break with neoliberalism.

This article explores these issues by taking sequential steps. First, it defines neoliberalism in a manner that establishes criteria for identifying what would constitute a genuine break. It then shifts to identifying neoliberalism's Antipodean variety, drawing from Elizabeth Humphrys' *How Labour Built Neoliberalism* (2020) to focus on the period of the governments led by Bob Hawke and Paul Keating when neoliberal corporatism was constructed in Australia. It is then argued that subsequent Labor governments, despite claims to the contrary by Kevin Rudd, have not broken with this neoliberal corporatist approach. The latter parts of the article considers the consequences of the current Treasurer's unwillingness to significantly shift from this type of policy agenda.

Defining and constructing Neoliberalism

A criticism levelled at Chalmers' essay is that the term neoliberalism has accumulated intellectual sludge through its overuse by people ignorant of its meaning and origins (McGuinness 2023). A more carefully considered view is that of Damien Cahill and Martijn Konings (2017), who argue that neoliberalism serves as a useful entry point for examining the messy, complex dynamics and variegated details of social formations. Indeed, defining neoliberalism as a 'phenomenon of human life' (Cahill and Konings 2017: 12) is a useful starting point. A phenomenon, as defined in the Oxford English Dictionary, is something which appears, or which is perceived or observed. Seeing neoliberalism as a phenomenon makes it nothing more than a useful shorthand for summarising what we have observed in practice and in hindsight. Neoliberalism was not stitched together by the ideologues such as Milton Friedman and Friedrich von Hayek who made up the Mont Pelerin Society and later brought to life by the shock therapy that the Chicago Boys advised General Augusto Pinochet to apply to the Chilean economy (Cahill and Konings 2017: 25). It is more like a Frankenstein's monster whose body parts attached themselves as it gradually shambled into view from the gloom of the crisis that ended the Golden Age of Capitalism, rather than one whose full form was revealed by a lightning bolt strike at the end of the 1970s.

Cahill and Konings move beyond the popular misconceptions of neoliberalism by developing a Marxist approach that avoids idealist explanations and incorporates institutional factors, while formulating a critique of it as a distinctive political project (Cahill and Konings 2017: 15). This approach emphasises Wood's understanding of the ideological nature of the separation of the political and the economic spheres under capitalism (Cahill and Konings 2017: 16). It also adopts the idea of 'neoliberal reason', which expresses the Foucauldian understanding that the power of the ideology arises from both the top-down imposition of a regime in favour of corporate and financial interests and its foundations in a broader field of beliefs, practices and institutions (Cahill and Konings 2017: 17). This highlights the need to understand neoliberalism as an attempt to legitimate a new capitalist order in response to an existential crisis that required engagement with the aspirations of the labour movement in order to defeat it (Cahill and Konings 2017: 17-8). The final element of this understanding is the recognition of the elements of continuity embedded in the neoliberal policy 'revolution' (Cahill and

Konings 2018: 19). Specifically, both the Keynesian and neoliberal eras are understood as attempts to construct a viable and sustainable capitalist order (Cahill and Konings 2018: 19).

What emerges from these insights is a definition of neoliberalism that embraces its contradictions, considering it as a global phenomenon and taking account of its intellectual origins, the policies applied, and its relationship with democracy and capitalism, including its manufactured separation of the political and economic spheres. It also accounts for the unevenness, variegation and contextual specificity of neoliberal projects across different polities by highlighting institutional variables and the multifarious forms that they can take.

These features are reflected in Elizabeth Humphrys' book on *How Labour Built Neoliberalism* (2018) which traces neoliberalism's emergence in Australia. Humphrys challenges academic and popular understandings that see neoliberalism as based on the ascendancy of the New Right and the coercive implementation of its preferred program of economic reform, which is the standard narrative of the neoliberal experiences of the United States under Ronald Reagan and the United Kingdom under Margaret Thatcher (Humphrys 2018: 2). In practice, neoliberalism has had many faces spanning the ideological spectrum, including parties like New Labour in the UK and the German Social Democratic Party (Cahill and Konings 2017: 2, 39). Significantly though, social democrats since the 1980s have usually sought to differentiate their 'third way' approach from the hard-edged policies that Thatcher and Reagan used to first express that phenomenon.

This rhetorical attempt to distance 'centre-left' politicians from the construction of neoliberalism was typified in Australia by then-Prime Minister Kevin Rudd's 2009 essay in *The Monthly* regarding the Global Financial Crisis. In that essay, Rudd argued that the neoliberal experiment of the past 30 years had failed (Rudd 2009: 23). This characterisation locates the start of the global phenomenon in 1979, and Rudd's description of it as the prevailing economic orthodoxy for this entire period since then could suggest that he is including Australia as one of the sites of experimentation during that time (Rudd 2009: 20). Instead, Rudd argues that social democrats have viewed themselves as presenting a political economy that rejected both state socialism and free-market fundamentalism since long before the term 'Third Way' was popularised in the 1990s (Rudd 2009: 25). Indeed, his example of a government that

pursued this approach is what he terms the 'ambitious and unapologetic program of economic modernisation' pursued by the Australian Labor governments of Hawke and Keating (Rudd 2009: 25).

Rudd treats it as self-evident that the political home of neoliberalism in Australia is the Liberal Party. His evidence for this includes the Howard government's reduction in investment in key public goods, national economic infrastructure and de-regulation of the labour market (Rudd 2009: 28). However, this characterisation of the Liberal Party as synonymous with neoliberalism jars with his account of Hawke and Keating's internationalisation of the Australian economy, their removal of protectionist barriers and their opening up of the economy to greater competition (Rudd 2009: 25). While this perhaps wilful blindness to Labor's implementation of the hallmarks of neoliberalism is characteristic of social democrats like Rudd, it also has implications for understanding the broader foundations of Australian neoliberalism.

Neoliberal corporatism in Australia

The corollary of Humphrys' primary argument regarding the construction of neoliberalism is that the dominant narrative does not adequately capture the geographical variegation of neoliberalism's origins and trajectory (Humphrys 2018: 2). As is evident from the sub-title of her book, Australia is an exception to the rule of the New Right's construction of neoliberalism, one that Humphrys locates with Labor's implementation of the Accord as a social contract during the 1980s (Humphrys 2018: 4). In this way, Humphrys addresses the duality of the neoliberal phenomenon observed by Cahill and Konings by pointing to both its global articulation and the institutional factors shaping its expression in different polities. Specifically, Humphrys shows Rudd's posited 'unapologetic program of economic modernisation' under Hawke and Keating to have comprised a series of vanguard reforms that are paradigmatic of neoliberalism (Humphrys 2018: 100). These included floating the Australian dollar, abolishing exchange controls, allowing the entry of foreign banks, fiscal austerity, monetary policy based on inflation-targeting, promotion of free trade, competition policy and the privatisation and corporatisation of public assets and agencies (Cahill and Konings 2018: 20).

The heavily state-directed character of the process that was pursued under the auspices of the Accord during the Hawke and Keating years is used as

a major part of the justification for Rudd's claim that they were pursuing a proto-Third Way political economy (Rudd 2009: 25). Expanding the role of the state underpins his analysis that these Labor Governments combined their harnessing of the power of the market with an effective regulatory framework that managed risks, corrected market failures, provided public goods and pursued social equity (Rudd 2009: 25). Humphrys turns this reasoning on its head by arguing that it was precisely through this state action, which she characterises as corporatism, that Australian neoliberalism was constructed, albeit in a different manner than it had been elsewhere in the Anglosphere.

Humphrys' definition of corporatism draws from Leo Panitch's analysis of liberal democratic governments. Panitch describes the corporatist framework as a systematic political exchange, in which trade union leadership offers wage moderation in return for the state implementing economic and labour market policies that attempt to resolve distributional conflicts and the employment-inflation dilemma (Humphrys 2017: 38).

A second component is Gramsci's conception of the 'integral state', which adds the understanding that social contracts are an attempt to integrate groups like the labour movement when they threaten to destabilise capital accumulation (Humphrys 2017: 41). Seen in this way, the goals of the Accord were the neoliberal policy aims of suppressing industrial militancy and therefore wages (Ross 2020: 22). In this way, the Accord was the product of the resolution of institutional tensions in a manner that proved integral to the emergence of Australian neoliberalism.

The political economic context of the preceding period was crucial. As Mike Beggs argues, the policy legend of what happened in the 1970s is succinctly set out in former Reserve Bank of Australia Governor Ian Macfarlane's 2006 Boyer Lecture (2010: 223). Specifically, Macfarlane's argument was that the 1970s revealed the serious dynamic problem with the Phillips Curve because it was not possible to attain a permanently low unemployment rate by accepting inflation at a constant higher level (2006). Macfarlane argued that the critique of the overly ambitious use of Keynesian demand management policy, as argued by Milton Friedman, was hotly debated for a decade but eventually proved to be right and came to be accepted by economists of all political persuasions (2006). This mainstream economic debate around the cause of inflation ended should not, however, be confused with the conclusion that this perspective was inevitable or even correct. Indeed, as Beggs notes, 'the notion that

Australian policymakers believed in and tried to exploit a stable relationship between inflation and unemployment is mistaken' (2010: 224). Friedman's perspective did constitute one of the poles in the economic debate around inflation in the 1970s (Beggs 2010: 237). However, both this pole and the Treasury's position that inflation was a 'wages problem' caused by industrial militancy had largely lost out to a third perspective which posited the need for a prices and income policy to manage wage and price growth from above (Beggs 2010: 235-9). It was the recession in the early 1980s, together with the rise in inflation back to double digits, that then set the stage for a prices and incomes policy approach to have its day (Beggs 2010: 247).

The concrete outcomes possible through this policy were a further site of contestation. Following the crisis of the 1970s and the failure of Keynesian tools to deal with stagflation, many argued that an alternative policy framework would need to be developed. Left trade unions believed that the longer-term security of the working class could only be achieved via comprehensive changes to taxation, pensions, social services and workplaces, codified in an agreement between the Australian Labor Party and the union movement. Some of these unions even believed that such a social contract would be a path towards socialism (Humphrys 2017: 93). It was in this context in the late 1970s that formal negotiations between the Australian Labor Party and the Australian Council of Trade Unions in August 1982 eventually produced the Accord agreement, which was subsequently ratified at a special ACTU Conference in 1983 (Humphrys 2017: 99).

This agreement between the ALP and ACTU evolved after its initial implementation in 1983, as it underwent a series of negotiated changes that had the effect of loosening the government's commitment to maintaining real wages (Stilwell 1991; Ross 2020). These changes included wage-tax and wage-superannuation trade-offs. It was an evolutionary process that led to the transformation of Australia's labour law regime, in which pay increases have become increasingly difficult to achieve (Heino 2017: 69). Significantly too, for what was called a *prices* and incomes policy, the structural constraints on wages were not matched by comparable restriction of price rises. As Ross notes, the Prices Surveillance Authority was merely an advisory body with no power (2020: 19).

Moreover, despite the union movement's claims that they would only support the Accord if it delivered for their members, there was no clear

exit strategy when the stipulations of the documents were not implemented (Humphrys 2017: 100). That raises the question of whether there could have been any alternative to the actions of Hawke and Keating governments other than the overtly hostile approach to trade unions that the New Right was continuing to advocate.

Examination of the conflict theory of inflation indicates that there could have been an alternative. This theory emerged during the 1970s in the context of a controversy over the cause(s) of inflation that developed within the Communist Party of Great Britain's Economic Advisory Committee (Devine 2000: 23-4). It was used to support the view that the Communist Party should eschew 'the militant economism which had characterized its approach during the 1950s and 1960s […] [in favour of] a Gramscian strategy of seeking to create a hegemonic consensus through the promotion of a prices and incomes policy that would challenge the prerogatives of capital' (Devine 2000: 24). This context is essential to evaluating Pat Devine's use of the conflict theory in 1974 to explain the 'continuous inflation that had characterized the period since the Second World War' (Devine 2000: 24). The removal of the threat of unemployment allowed workers to seek real wage increase in excess of productivity growth at the same time that capitalists retained their ability to bid via higher prices and the state via higher taxes or borrowing from banking (Devine 2000: 26).

In this way, Devine argued that the existence or absence of a convincing Marxist theory of inflation would play an important part in shaping the context in which the conflict between capital and labour would be fought out (Devine 1974: 91-2). However, this diagnostic element only informed the solutions to the persistent inflationary crisis that were available to policy makers. The approach that corresponded to the conflict theory of inflation was the promotion of a prices and incomes policy that would challenge the prerogatives of capital (Devine 2000: 24). The conflict theory suggests that continuing the commitment to full employment while removing capital's ability to raise prices in response to higher wages would have prevented inflation. Instead, in Australia, the Accord disrupted worker's recent and long run real wage aspirations (Rosenberg and Weisskopf 1981: 44) by curtailing their ability respond to unanticipated inflation (Rowthorn 1977: 215).

Thus, the ALP's failure to adequately protect the interests of the workers it has always claimed to represent cannot be explained by the absence of

alternatives. The debate over the approach that the Communist Party of Great Britain should take to the persistent inflationary crisis was observable by Australian policymakers in the pages of its journal *Marxism Today* (Devine 2000: 24). Furthermore, the prospect of whether the ALP would construct an incomes policy with due regard for the interests of the trade union movement was being raised by the Communist Party of Australia as early as 1981 (Ross *et al.* 1986: 13).

It becomes clear in this context that what was missing to transform the Accord from a simple working class sacrifice in return for the fool's gold of a higher 'social wage' was political leadership (Humphrys 2018: 6, 9). However, the left failed to establish a historic bloc pursuing a hegemonic strategy to strengthen labour's structural position at the expense of capital. The result was that the unsustainable situation identified in the conflict theory of inflation was resolved on capital's terms (Devine 2000: 30).

'Values-based capitalism'

Having defined the neoliberal phenomenon and explained the role of the Australian Labor Party in the construction of neoliberal corporatism, we now need to consider whether Labor in government can truly break with neoliberalism based on both statements of intent and practical outcomes. Statements of intent indicate the outer limit of what is considered desirable and achievable. Regarded in this way, Chalmers' essay is useful as a starting point in providing evidence on how a key figure in the Albanese government frames the issues and prospects. However, it is necessary to avoid drawing causal lines between textual analysis and the implementation of neoliberal policy models (Cahill and Konings 2017: 13). Equally important is coming to grips with the past as an essential first step in realising the need for a break with neoliberalism, because those who fail to learn from history are doomed to repeat it.

As argued earlier, Kevin Rudd's earlier article in *The Monthly* was flawed by its presumption that there was a qualitative difference between Hawke and Keating's 'proto-Third Way' and the neoliberalism to which the Liberals naturally incline. At face value, Chalmers' rhetoric seems to better engage with the past through featuring the dictum that "no man ever steps in the same river twice" (Chalmers 2023: 20). However, the key ideas from Chalmers' essay do not match his rhetoric that this generation of ALP policy makers will make their own way across the river rather than

retracing the steps of their heroes (Chalmers 2023: 28). This is because the ideas behind his 'value-based capitalism' reflect a barely indistinguishable brand of Hawke and Keating's neoliberal corporatism.

Like Rudd, Chalmers attributes the source of neoliberal policy failure to the Liberal Party, but now manifest in the governments during the last decade. Rudd's previous arguments that the social-democratic state best preserves the productive capacity of properly regulated competitive markets are matched by Chalmers' citation of the economist Mariana Mazzucato's belief that markets featuring built in partnership through the efforts of business, labour and government are the ideal mechanism to efficiently direct resources (Chalmers 2023: 23). Rudd's prescription that government should be the funder or provider of public goods finds its comparable expression in Chalmers' essay in the latter's proposal to build values-based capitalism using the three forms of public-private partnerships of co-investment, collaboration and impact investing (Chi Wong and Hameiri 2023). Each of these proposals clearly fail to break with neoliberalism in their advocacy for the increasing privatisation and a social contract like the one that characterised Hawke and Keating's neoliberal corporatism. However, in their cases, it is clear that such a contract would be even more openly tripartite, which is to say more directly involving capital, than the Accord.

The aftermath of the publication of 'Capitalism after the Crises' further drove home that Chalmers would, neither in rhetoric nor practice, leave neoliberal corporatism behind. His reaction to headlines saying that the Business Council of Australia (BCA) and Australian Industry Group (AIG) had woken in fright at his essay (Chambers and Kelly 2023) was to meet with the BCA's CEO later that day. His response to suggestions that he was discrediting the modern relevance of the Hawke-Keating 'reform era' was to assure journalist Michelle Grattan that some of his themes are the fruits of conversation that he'd had with Keating about the essay (Grattan 2023). Most tellingly, his description of value-based capitalism was that it charts a third way, both temporally and politically, between a 1950s-style approach to industry policy and the policy approach taken over the best part of the last decade (Grattan 2023).

Chalmers' deterministic pronouncement that the current inflationary crisis has 'forced' the bluntest and fastest interest rate increases since the inflation targeting era began (Chalmers 2023: 22) demonstrates that this crisis cannot be resolved by a return to neoliberal corporatism

differentiated only by a greater role for capital. Industrial militancy cannot be suppressed to defeat any wage-price spiral, because even the OECD admits that what Australia is facing is a profit-price spiral (Jericho 2023).

There is little reason to hope for a resolution to this crisis when the government's solution seems to be a return to a policy approach that failed to regulate prices as a part of a deal with organised labour when it was at the peak of its strength.

Conclusion

Chalmers' 'Capitalism after the Crises', like Rudd's earlier essay on 'The Global Financial Crisis', does not signal a break with neoliberalism, despite their appearances-to the contrary. Both fail in this task by refusing, in both their historical accounts and their policy prescriptions, to reject neoliberal corporatism. As the latter parts of this article have shown, the neoliberal limitations of Labor's approach to the current inflationary crisis have further driven this reality home. On the basis of this argument and evidence, we can therefore conclude that the Australian Labor Party lacks the intention of breaking with neoliberalism.

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LESSONS FROM LANGMORE’S VISION

Darren Quinn

Four decades ago, John Langmore’s article, ‘Economic Strategy for a Labor Government’, outlined a progressive vision for economic policy. Published in *JAPE* in 1983, Langmore called for the simultaneous pursuit of full employment, stable prices, and greater equity. His landmark article proposed a strategic approach to macroeconomic management, along with structural changes to promote these goals. However, although Langmore had strong personal connections with the leaders of the ALP, the alternative economic strategy he advocated was not implemented. Yet Langmore’s aims feel even more pertinent four decades later because of the neoliberal policies that were pursued in the meanwhile. Diminished workers’ rights, weakened social safety nets, and heightened inequality accompanied the characteristically neoliberal focus on deregulation, privatisation, and inflation targeting. Now, with Labor again in government, it is pertinent to ask what could and should be done.

For that purpose, this article revisits Langmore’s foundational vision, looking at its continued relevance for creating a just and sustainable Australian economy. It discusses the potential for an integrated program of progressive reforms spanning macroeconomic, industrial and social policies that go beyond piecemeal initiatives. As in Langmore’s work, it emphasises the importance of maximising employment by using targeted public investment and job creation schemes. It also echoes Langmore’s call for gradual steps towards economic democracy, including increased public ownership and support for cooperatives. It recognises that enacting such an agenda faces political and practical hurdles, making policy creativity, stakeholder collaboration and public advocacy necessary for achieving successful outcomes.

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The political economic experience

Shortly after Langmore's article was published, the Labor federal governments under Prime Ministers Bob Hawke and Paul Keating began implementing a suite of market-oriented economic reforms, including floating the Australian dollar, financial deregulation, and privatizing several large state-owned enterprises. The Accord with the union movement was used to pursue wage restraint (Pusey 1991). Although the Hawke-Keating era was politically successful, keeping Labor in office from 1983 to 1996, it also revealed the inherent flaws, limitations and unequal outcomes associated with the neoliberal policy inclinations. Australia endured major economic recessions during this period, contrary to neoliberal assertions that deregulated markets would produce optimal outcomes. Financial deregulation enabled speculation in assets that contributed to bubbles emerging in multiple sectors, eventually bursting and leading to the severe recession of the early 1990s. Privatizing public monopolies like Qantas and Telstra enabled those businesses to engage in predatory behaviour, such as price-gouging and providing unreliable services without the competitive discipline that neoliberal theory claimed deregulation would deliver. Furthermore, the uneven impacts of the neoliberal reform agenda created definite winners and losers, escalating tensions between the Labor Party and elements of its traditional union base and working-class support. Deregulation and privatisation caused substantial job losses in restructured public enterprises and manufacturing, fuelling further resentments.

The impact of neoliberal economic policies across many other nations reveals similarly repeated failures, fueling financial crises, rising inequality, prolonged unemployment and instability. The privatisation of public utilities and services frequently led to deteriorating service quality and accessibility for consumers while enabling former public monopolies to hike prices, sacrifice worker conditions, and remove public interest obligations in pursuit of profit maximisation (Denniss 2022). Similarly, the excessive neoliberal reliance on monetary policy for macroeconomic management, while neglecting the stimulatory capacity of fiscal policy, has not proved effective in meeting complex economic challenges and fostering stability and growth (Mitchell 2009; Boesler 2017). Labour market problems arising from neoliberal policies include prolonged unemployment, underemployment, stagnant wages and job insecurity for workers, with issues like long-term unemployment highlighting the need

for more ambitious government policy interventions to promote full employment (Mitchell and Muysken 2008; Gregory 1986).

Most notably, financial deregulation enabled speculative and risky lending practices that have exacerbated multiple economic crises, as seen with the Global Financial Crisis of 2008. By then, another Labor government was in office under the leadership of Kevin Rudd, and its Keynesian response through expansionary fiscal policy proved effective in avoiding recession in Australia. For a moment, it seemed like the era of neoliberal dominance might be over. But, contrary to some expectations and many hopes, this did not eventuate. As in many other capitalist nations, the subsequent decade of over-reliance on monetary policy and economic austerity left a legacy of economic stagnation and much greater economic inequality. In Australia, the dearth of visionary policy under the conservative NLP Coalition governments leaves a massive backlog of issues to be tackled. These are conditions in which Langmore's vision remains relevant.

Enduring lessons

So, what lessons can be learned from the experience of public policies during the last four decades? First is the importance of policies that prioritise social welfare and address income inequality: government policies to improve social welfare and reverse rising inequality should not be secondary concerns (Poverty Lines December Quarter 2022). Rather, to promote greater equity, the policy emphasis should be on progressive taxation, strengthening social safety nets, and increasing public investment in quality services like healthcare and education.

A second lesson is the recognition of the need for regulations to safeguard the public interest and consumers' interests in key sectors (Henry *et al.* 2010; Denniss 2022). Policy must put public welfare before private profits, including re-regulation where necessary in areas like utilities where privatization has created adverse social outcomes.

Third, the policy mix should include fiscal and structural reforms. Reliance on monetary policy levers is clearly insufficient for complex modern economies. The stimulatory role that fiscal policy can play through government spending and public investment warrants far greater emphasis, as do structural reforms like industrial planning to drive growth and innovation (OECD 2009; Dominguez and Quiggin 2022).

Fourth, it is important to adopt a sustainable and inclusive economic model. The repeated neoliberal failures and crises make it essential that policymakers should transition to a more sustainable and inclusive policy approach prioritising social welfare, equity, environmental sustainability, and long-term stability rather than short-term efficiency and growth maximisation (Neville 1975; Marglin and Schor 2007).

These lessons require an emphasis on public investment, strong worker protections, climate action, and economic justice (Mitchell and Fazi 2017). Policies such as the following could get the process started.

Raising the tax-free threshold

Individuals begin paying income tax once their earnings exceed $18,200 yearly (ATO 2022). Modelling by the Australia Institute suggests lifting that tax-free threshold to $30,000 could return $11.7 billion annually to over 5 million Australians (Grudnoff 2022). It would improve progressivity and boost the spending power of low-income earners because, with extra disposable income amounting to hundreds of dollars annually, these individuals are far more likely to spend on essential goods and services. This boost in consumer demand would have flow-on stimulatory effects for businesses, generating higher revenues, employment opportunities, and economic growth.

Empirical evidence shows that raising tax-free thresholds can also contribute to lower income inequality. The UK's experience of increasing the personal tax allowance in 2012 is a case in point. Analysis shows it decreased income inequality and increased employment rates, particularly for low earners (Brewer and Wren-Lewis 2016). Moreover, a higher tax-free threshold increases the financial reward for earning additional income and reduces effective tax rates that can otherwise disincentivise workforce participation. Lifting the tax-free threshold is also administratively simple and can be implemented quickly through adjustments to tax brackets and transfer payment withdrawal rates. However, to prevent fiscal drag from eroding benefits over time, the threshold should be indexed to rises in average weekly earnings. By sharing the fiscal dividends of growth more widely, this policy change would help reduce inequality and promote fairness and prosperity. Politically, the popularity of tax relief for lower-income earners could garner broad-based support.

Strategic price controls

Implementing strategic price controls and caps on crucial goods and services deserves strong consideration to help ease cost of living pressures. While often resisted in economic orthodoxy, regulations on sectors with high market power can ensure more equitable access to essentials. For example, regulators have applied temporary default price caps to electricity prices in NSW and Queensland amidst energy affordability concerns, preventing further gouging of consumers (King 2022). Similar intervention to freeze rental inflation that is over 20% p.a. could relieve tenants being squeezed by the housing crisis. Though not universal solutions, targeted price controls on essentials can limit profiteering from temporary supply-demand imbalances. Interventions should be carefully designed, considering broader impacts on supply and demand and paired with long-term measures addressing structural causes such as monopoly power. Complementary policies to address the root causes driving high costs in sectors like housing and healthcare include increasing the housing supply through expanded social housing construction and having the government co-manufacture generic medicines.

While not a blanket solution for all sectors, judiciously applied price controls deserve consideration as mechanisms to promote economic equity and social welfare. Well-designed interventions could also make childcare more affordable, for example, by lowering workforce participation barriers and boosting families' incomes. Enabling more parents to work has both productivity and equity benefits. There is also evidence from Canada that price regulation can improve access to medicines, with controls resulting in significantly lower drug prices than the largely unchecked US market (Morgan *et al.* 2017). Price regulation should not be reflexively ruled out based on theoretical objections alone. As Denniss (2022) notes, policy should respond pragmatically to real-world problems rather than economic models. With sound implementation and sunset clauses, strategic price controls could be deployed as part of a progressive policy toolkit.

Increasing social security payments

Permanently increasing inadequate social security payments such as JobSeeker, Youth Allowance, and related supports is essential to alleviate poverty and deprivation in Australia. Welfare payment levels have not kept

pace with community living standards for decades, trapping recipients in deep hardship (ACOSS 2020). The basic rate of JobSeeker should not remain below widely accepted poverty lines; and raising it has broad public backing, with nearly 65% of Australians supporting an increase (Henderson 2022; Davidson 2022). Immediately raising payments by at least $25 per day would provide basic dignity. Indexing future increases to movements in wages or living costs would also prevent erosion of real value over time. A full review of social security adequacy against current living standards would likely support far more substantial increases.

Higher social security would also act as a pro-poor economic stimulus, given low-income earners' higher marginal propensity to consume. Modelling by Deloitte Access Economics suggests that even a $25 per week increase could boost GDP by $4 billion, creating 12,000 jobs (Grudnoff 2020). Evidence from the temporary Coronavirus Supplement also shows that additional income predominantly translated to increased spending on essentials, supporting these assumptions (Phillips *et al.* 2020; Klapdor 2022). While policymakers frequently cite budgetary costs as a barrier, these static estimates ignore the resultant stimulus. Analysis by Per Capita indicates the actual fiscal cost of raising allowances could be as little as 10% of headline budgetary impacts once flow-on effects are considered (Klapdor 2022). With social security functioning as a critical automatic stabiliser, policymakers must ensure payment adequacy to cover contemporary costs of living (OECD 2018)

Allowing continued deprivation and poverty amidst national prosperity represents a political choice and policy failure. Implementing progressive taxation reforms and reining in poorly targeted tax expenditures for the wealthy could also offset costs. However, after decades of erosion, raising social security to humane levels is an ethical imperative.

Public works

Expanding public works and investing in socially beneficial enterprises would vastly benefit the Australian economy and environment. With borrowing costs rising from their historic lows, fiscal programs must be judiciously prioritised and budgeted, of course. However, the government still has the capacity to fund ambitious public capital initiatives in areas like renewable energy, housing and infrastructure. Upgrading and extending public transportation networks, including electrified high-speed

rail between major cities, would also dramatically reduce emissions while increasing mobility, connectivity and access to economic opportunity. There is an increased need for public housing (Pawson et al 2020), which would reduce housing waiting lists and ease pressure on housing prices. Similarly, increasing health and education infrastructure commensurate with population growth and ageing is critically needed to maintain quality universal services (Denniss 2022; Shepherd 2023). Multiplier effects resulting from the initial spending in all these areas lead to increased consumption and business activity, which cycles through the economy to drive further growth. Public works have the largest multiplier effect of any public expenditure on economic activity and employment (OECD 2009; Neville 1975; Domínguez and Quiggin 2022).

The design and delivery model chosen for public works programs must emphasise efficiency alongside social and environmental aims. However, governments worldwide, from the US New Deal policies to Japan's post-WW2 bullet train network, prove that strategically mobilising public investment can help tackle major societal challenges and drive structural economic change. Here in Australia, as political economist John Quiggin (2022) has pointed out, active governments have played a pivotal role in developing Australia's economy throughout history, contrary to neoliberal assertions. Now, with climate change intensifying, inequality growing, and critical systems like health and education under strain, renewed ambition for nation-building policies is required to decarbonize, provide secure jobs and rebuild eroded public services. This would need more public spending than is currently contemplated (other than for submarines) but is achievable for serving the public interest in a prosperous nation.

A job-guarantee program

Providing government-funded employment to anyone willing and able to work but unable to find a private-sector job would function as an effective automatic stabiliser for the economy. By offering a minimum wage job on demand in community-focused projects, the program would establish an employment safety net as an alternative to passive unemployment benefits (Cook *et al.* 2008). When the economy falters, and private sector jobs decline, displaced workers could transition into guaranteed public sector employment, maintaining their income and job skills. Then, as the private sector strengthens, these individuals could return to available jobs, thereby

responding organically to the changing labour market conditions. This inherent flexibility enables aggregate demand to be sustained at full employment without inflationary consequences.

Since spending power would be stable, recessions would be shallower, and significant social pain avoided. The job guarantee's budget would also expand and contract counter-cyclically, increasing during downturns as spending on public sector employment grows, then decreasing again during private sector recoveries. This built-in stabilisation mechanism provides resilience. Equally importantly, the program affords social benefits: workers gain skills, experience and human dignity, while unmet community needs like aged care, disability support, environmental regeneration and public art programs can be fulfilled. The job guarantee's national wage also effectively sets a minimum standard for decent work, making low-paying private employers lift conditions to attract labour.

Successful examples demonstrate the concept's merit. India's National Rural Employment Guarantee provided income security and development for impoverished rural populations during the Global Financial Crisis (Drèze 2022). Argentina's Plan Jefes guaranteed paid community employment for 2 million citizens during its severe 2001-2002 economic crisis, substantially reducing extreme poverty and unemployment (Galasso and Ravallion 2004). These cases show the macroeconomic stabilisation strengths and social welfare benefits a well-designed guarantee can confer.

An employment guarantee represents a powerful mechanism for the government to achieve full employment and price stability in a flexible modern economy exposed to volatility. Its effective implementation would require balancing national consistency in wage rates, working conditions and program administration with sufficient flexibility for local input, tailoring projects to community priorities. Trade union involvement in design and governance could help to ensure job quality. Given the private sector's inability to permanently deliver full employment, the job guarantee warrants serious consideration as a primary stabilisation tool.

Fee-free tertiary education

Making all public university and vocational education completely free of tuition fees would promote greater equality of opportunity and foster productivity growth. The substantial tuition costs and debt burdens currently facing students from disadvantaged backgrounds act as *de facto*

barriers to skills development and social mobility (Argy 2006; Whitlam Institute 2023). Consistent empirical evidence shows that introducing free tertiary education increases enrolment, skills acquisition, completion, and intergenerational earnings mobility. For example, Germany's abolition of public college tuition fees in all states before 2005 substantially increased university participation among youth from lower-income families with less-educated parents (Kehm 2014; Barr 2014).

Dynamic analysis also suggests that the budgetary costs of fee-free tertiary systems are frequently overstated. Indeed, the government does forgo tuition fee revenue under such models, but that loss is partially offset by increased income tax revenue from the more highly skilled and productive workforce produced by universal tertiary access. Econometric modelling indicates that removing Australian public university fees could fully pay for itself in the long run through productivity and wage increases, boosting taxes paid over graduates' working lives (Littleton 2022). Broader benefits beyond the fiscal ledger also include reducing the heavy student debt burdens currently restricting spending and homeownership rates for young Australians. Tackling complex challenges like climate change, future pandemics, and rapid technological shifts will require an increasingly specialised workforce – minimising financial access barriers through free education helps develop essential human capital.

Importantly, simply abolishing fees alone does not guarantee quality. Alongside eliminating upfront charges, increased public funding for tertiary education infrastructure and resources would be essential to ensure academic standards. However, removing price barriers would represent a decisive progressive step: it positions education as a universal right for all citizens, not a privatised commodity. With proper resourcing, fee-free tertiary education can promote equity and growth.

Obstacles to transformative change

Contrasting with these bold policy proposals, the first year and a half of the government's first term in office has been notably disappointing in important policy areas, especially climate change, housing affordability and cost of living. Its climate policies, like the 2050 net zero target, lack the ambition scientists say is required, while continued support for fossil fuels undermines their limited goals (IPCC 2023; Bond 2023). Regarding housing affordability, while schemes like the First Home Loan Deposit

Scheme have marginally assisted some first-time buyers, the government has shied away from tackling the root causes of unaffordable housing like insufficient affordable housing supply. Their tentative measures highlight political hesitancy (Chalmers 2023; Pawson *et al.* 2020). Trying to deal with the rising cost of living, the government's relief has centred on modest targeted assistance programs for low-income earners. Its reluctance to implement bolder systemic reforms shows limited political will to address core drivers of rising living costs (Fanning *et al.* 2023). These cautious policies underscore the considerable political barriers facing comprehensive progressive economic reforms.

The incumbent Labor government campaigned on a centrist platform, largely continuing the Coalition's status quo settings to avoid alienating moderate voters (Kenny 2023). Several factors drive Labor's hesitation.

First, the party relies heavily on corporate donations, constraining policy options counter to business interests (Frijters and Murray 2022). However, growing public concerns over political corruption and inequality provide openings to advocate donation and lobbying reforms that could progressively diminish corporate influence.

Second, entrenched neoliberal ideology still shapes policy debates, casting government intervention as inefficient while ignoring markets' frequent failures (Quiggin 2023b). Challenging this paradigm will require sustained evidence-based critique paired with clear articulation of credible alternative economic models.

Third, the majoritarian electoral system creates a centrist tendency, as deviating from it risks alienating moderate voters (Holloway *et al.* 2018). The political left has fractured, with the Greens capitalizing on social democrats disillusioned with Labor (Quiggin 2023a). However, enough voters continue supporting the two-party system to keep Labor in power if it occupies the centre, as Prime Minister Albanese seems to be doing. However, deteriorating economic and social conditions could prompt reassessment if public opinion shifts towards demanding bolder reforms. Public support for progressive reforms is growing amid rising inequality and climate concerns. Grassroots campaigns can raise awareness and pressure politicians to challenge orthodoxy and pursue more ambitious reforms. Under-represented groups have a vital role in shaping discourse.

The role played by the Greens' is significant in this context. On issues like healthcare, climate change and inequality there is scope for collaboration (Jericho 2019; Jacobs 2019). As a Senate force, the Greens can be

instrumental allies in passing progressive legislation if Labor is willing to cooperate despite the electoral competition between the two parties. As Holloway, Miragliotta and Manwaring (2018) point out, Australia's majoritarian system discourages policy accommodation between Labor and the Greens. The alignment of policy positions may be limited despite overlapping objectives, but visionary leadership by championing shared interests, could partially overcome partisan divides.

In summary, transformative change through government policies faces substantial constraints from the ongoing influence of neoliberal doctrines, corporate influence, electoral incentives, and more. However, strategic policy development and organizing can help progressives reshape politics over time. With vision and determination, a new economic paradigm is possible – but it will take public pressure and perseverance. Fundamental reform must start by believing it is achievable.

Conclusion

This article has revisited John Langmore's economic policy vision, examining its continued relevance amidst contemporary challenges. While neoliberalism's ascent has led to slower growth, weakened social safety nets, and heightened inequality, Langmore's goals remain pertinent. By learning from neoliberalism's failures, policymakers can renew their commitment to full employment, stable prices, and reduced inequality. However, piecemeal initiatives are insufficient – comprehensive reforms across macroeconomic, industrial and social policy are required.

The policies discussed in this article – including public investment, a job guarantee, increased social security and education access - offer potential avenues to realize Langmore's enduring aims. However, major political obstacles pose major constraints, evident in the Labor government. Overcoming the obstacles will require policy creativity, coalition-building, and sustained public advocacy. By daring to chart an alternative path, however, Australia can tap into a rich progressive tradition to cultivate an economy fostering equity, shared prosperity, and ecological sustainability. The choices political leaders make today shape the society that future generations inherit. By learning from the limitations of past governments, Langmore's dream of an egalitarian and sustainable Australia could become a reality.

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